

**Agency Proposed Budget**

The following table summarizes the total executive budget proposal for the agency by year, type of expenditure, and source of funding.

Agency Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	2,176.13	40.65	13.63	2,230.41	11.65	17.50	2,205.28	2,205.28
Personal Services	103,543,485	10,002,857	808,404	114,354,746	9,271,119	1,015,065	113,829,669	228,184,415
Operating Expenses	361,067,272	107,191,889	4,434,475	472,693,636	95,267,283	2,165,815	458,500,370	931,194,006
Equipment	1,456,438	62,000	549,254	2,067,692	62,000	67,244	1,585,682	3,653,374
Capital Outlay	15,533,494	516,663	0	16,050,157	516,663	0	16,050,157	32,100,314
Local Assistance	95,225	0	0	95,225	0	0	95,225	190,450
Grants	9,014,582	1,786,343	0	10,800,925	753,343	0	9,767,925	20,568,850
Transfers	18,221	0	0	18,221	0	0	18,221	36,442
Debt Service	750	0	0	750	0	26,000	26,750	27,500
<b>Total Costs</b>	<b>\$490,729,467</b>	<b>\$119,559,752</b>	<b>\$5,792,133</b>	<b>\$616,081,352</b>	<b>\$105,870,408</b>	<b>\$3,274,124</b>	<b>\$599,873,999</b>	<b>\$1,215,955,351</b>
State/Other Special	237,162,066	47,943,259	2,162,370	287,267,695	21,145,450	1,731,861	260,039,377	547,307,072
Federal Special	253,567,401	71,616,493	3,629,763	328,813,657	84,724,958	1,542,263	339,834,622	668,648,279
<b>Total Funds</b>	<b>\$490,729,467</b>	<b>\$119,559,752</b>	<b>\$5,792,133</b>	<b>\$616,081,352</b>	<b>\$105,870,408</b>	<b>\$3,274,124</b>	<b>\$599,873,999</b>	<b>\$1,215,955,351</b>

**Agency Description**

The Department of Transportation is responsible for serving the public by establishing and maintaining a transportation system that emphasizes safety, environmental preservation, cost-effectiveness, and quality.

**Agency Highlights**

<b>Department of Transportation</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$231.6 million for the biennium over the base (an average annual increase of 24 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Increased funding for federal-aid highway construction related project costs in anticipation of higher federal funding</li> <li>Computer system enhancements and reprogramming</li> <li>Increased funding for maintenance of rest areas and newly assumed secondary roads</li> <li>Replacement and upgrades for remote weather site and communications equipment</li> <li>New costs to operate a joint port of entry with Wyoming</li> <li>Purchase of a replacement aircraft</li> <li>Transit facility and vehicle grants</li> <li>Transportation corridor studies</li> </ul> </li> <li>17.5 FTE would be added by the end of the biennium</li> <li>Reappropriation of the 2005 biennium funding for the construction project on US Highway 93 between Evaro Hill and Polson is requested due to project delays</li> <li>The state funded construction program would be reduced by \$38.5 million for the biennium</li> </ul>	

- Federal highway funding is uncertain - annual federal funding was estimated at \$325 million
- The Motor Carrier Safety Assistance Program would add funding for 11.50 FTE by the end of the biennium and \$3.1 million total funds for the biennium if it is transferred from the Department of Justice

## Agency Discussion

### *Funding for Montana Highways*

#### Vast Highway Network

Montana has a vast network of highways that plays a major role in Montana's transportation needs. Montana has nearly 70,000 centerline miles of public roads, of which the Department of Transportation (department) has responsibility for nearly 11,000. The remaining roughly 59,000 miles are mostly rural and municipal roads maintained by local governments or private citizens. The department would spend roughly \$1.2 billion in the 2007 biennium to maintain, rebuild, and operate the 11,000 miles of paved roads under its responsibility. Funding to support this effort would be roughly 45.0 percent from state sources and 55.0 percent from federal sources.

#### Sources of Revenue

The department is funded from a combination of state special revenue and federal special revenue. State special revenue can be grouped into two general categories: those that are protected by the state constitution and those that are not. The Constitution of the State of Montana states that revenues from gross vehicle weight fees and excise and license taxes on gasoline, fuel, and other energy sources that are used to propel vehicles on public highways are to be used solely for paying obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; and for enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Non-restricted revenues are derived from special use permits and motor fuel penalties and interest payments. All highway construction expenditures from state funds are accounted for in the highways state special revenue account (HSRA), whether they are from restricted or non-restricted revenues. In FY 2004, constitutionally protected (restricted) revenues comprised roughly 97.4 percent and comprised non-restricted revenues 2.6 percent of total state special revenue. HSRA is used as the match for federal funding of the department.

Federal aid for highway construction is primarily realized from the distribution of revenue derived from federal excise taxes on motor fuels and other transportation products, such as heavy truck tires. Montana has historically received significantly more federal-aid highway construction funds than are collected in federal motor fuels excise taxes from Montana sources. In FY 2003, Montana received federal funding for highways equivalent to \$2.18 for every \$1.00 collected in the state and sent to the federal highway trust fund.

#### Reauthorization of Federal-Aid Highway Funding

The department receives federal-aid highway funding from the Federal Highway Administration (FHWA), typically from authorizations in six-year funding bills. The previous six-year federal funding bill for highways was titled the Transportation Equity Act for the 21st Century (TEA-21) and ended on September 30, 2003. Congress has not passed a new multi-year reauthorization, but has continued to authorize federal aid funding for highways through extensions of TEA-21, with the last of six extensions ending May 31, 2005. Currently, both chambers of the U.S. Congress have passed bills that would provide average annual apportionments for Montana that are higher than received under TEA-21. However, the average levels Montana would receive differ by \$80 million per year between the two versions. Under TEA-21, Montana received an average of \$260 million per year in federal allotment for highway construction and related activities. Because of the uncertainty with federal funding, the department has submitted a budget that assumes \$325 million annually in federal highway funding. The department assumption is between the estimated \$300.0 million Montana would receive under the House of Representatives version and the estimated \$380.2 million in the Senate version, based on tables provided by the FHWA.

When TEA-21 was enacted, the annual allotment of federal funds for Montana grew by more than \$80 million compared to what Montana received under the previous federal highway funding law. If Montana's allotment of federal-aid highway construction funds grows as it did when TEA-21 was enacted, Montana will have to match the greater federal

funds with more state funds. The potentially higher state match could impact how HSRA funds are allocated to state uses and could deepen the instability of the account.

#### Sliding Scale Match

Montana currently receives federal highway construction funds based on a sliding scale match formula that includes factors for the amount of federal land in the state and the amount of financial contribution the state makes to maintain the federal-aid highway system with state dollars. The current match ratio is 87 percent federal to 13 percent state for reimbursable federal-aid projects. In order to maintain this favorable match, Montana must provide maintenance of effort by fully funding a certain level of construction activity with state funds. The department estimates that roughly \$10 million of state-funded highway construction is needed annually to maintain the current match ratio.

In order to utilize all of the federal funds allotted to the state, state funds must be available to provide: 1) planning functions required in the federal funding law; 2) maintenance of the federal-aid highway system to FHWA standards; 3) adequate management and oversight of federal-aid construction projects; 4) a minimum construction program supported by 100 percent state funds (\$10 million annually); 5) matching funds for federal-aid construction funds; and 6) adequate working capital to pay operating expenses with 100 percent state funds until federal reimbursement is provided. These factors all contribute to the need to maintain a certain working capital level to support cash flow obligations of the department. In the past, the department has referred to \$10.0 million as an adequate working capital balance.

Figure 1 illustrates a comparison of different federal-aid match rates on expenditures of state special revenue. For the comparison, a federal-aid highway construction funding level of \$325.0 million was used as the constant. The figure illustrates how much state funds would be needed for two different federal participation rates:

- At an 87 percent federal participation rate, \$58.6 million state funds (including spending \$10.0 million state funds as a state maintenance of effort to secure the 87 percent rate) would be needed to match \$325.0 million of federal funds
- At an 80 percent federal participation rate, \$81.3 million state funds would be needed to match the same \$325.0 million of federal funds

Figure 1 Federal-Aid Match Rate Comparison (in \$ Millions)		
	State-Funded Construction	
	\$10 million	\$0
Federal participation rate	87.0%	80.0%
Federal-aid construction program		
State funds	\$48.6	\$81.3
Federal funds (constant for comparison)	<u>325.0</u>	<u>325.0</u>
Total federal-aid construction program	\$373.6	\$406.3
State funded construction program	10.0	-
Total state funds spent	<u>58.6</u>	<u>81.3</u>
Total construction program	<u>\$383.6</u>	<u>\$406.3</u>
Effective federal participation rate	84.7%	80.0%
Savings of state funds from favorable match at the minimum maintenance of effort	\$22.7	

By spending \$10.0 million state funds on 100 percent state-funded construction to improve the federal participation rate from 80.0 percent to 87.0 percent, Montana saves \$22.7 million state funds for \$325.0 million federal aid. The illustration shows that it is in the best interest of the state to buy down the state match rate by funding a state-funded construction program at least at the minimum level needed to maintain a favorable federal participation rate.

#### *Highways State Special Revenue Account Working Capital Analysis*

The highways state special revenue account provides the state funding to match more than \$300 million annually of federal transportation funding, with a resultant more than \$500 million of annual transportation spending to maintain and expand the state transportation infrastructure. The HSRA has historically experienced imbalances in which expenditures exceeded revenues. The following working capital analysis of HSRA shows the financial condition of the account going into the 2005 legislative session.

#### Applicable Funds

HSRA is used, among other purposes, to fund the major activities of the Montana Department of Transportation (MDT). Two funds are combined to form this account, the constitutionally restricted fund and the non-restricted fund. The department records revenues in the fund most appropriate to the constitutional and statutory directions for the revenue source. However, all expenditures are made from the restricted fund, with the balance from the non-restricted fund transferred to the restricted fund.

#### Account Uses

HSRA funds the operations of five programs of the MDT that administer, enforce, and support the construction, maintenance, and safe operations of Montana highways. HSRA also funds Long-range Building Program projects for MDT facilities and those of the Department of Fish, Wildlife and Parks (FWP) related to roadway activities, and for programs of the Department of Justice (DOJ) that support highway or motor vehicle activities. Programs of DOJ that are partially funded with HSRA are: 1) Legal Services Division; 2) Motor Vehicle Division; 3) Montana Highway Patrol; 4) Central Services Division; and 5) Information Technology Services Division. HSRA also funds statutory appropriations that total \$16.8 million per year, transfers of \$0.1 million per year to the noxious weed trust fund, alcohol production incentives (gasohol) capped at \$6.0 million per year, and ethanol consumption incentives. The analysis assumes no changes in the allocations of the funds in future biennia.

#### Assumptions Used in the Working Capital Projections

For all years of the analysis, it was assumed that at least \$10 million annually would be expended on 100 percent state funded construction projects as the state maintenance of effort to maintain the favorable federal participation rate of 87 percent on highway construction projects. Assumptions that change based on the analysis component and the year are listed below.

The following assumptions were used for FY 2005:

- Revenue and Transportation Interim Committee (November 2004) recommendations of revenue estimates are applied for gasoline and diesel taxes and gross vehicle weight fees
- FY 2004 actual revenues are used for all other revenue sources (except that \$3.4 million was deducted from the FY 2004 amount because FY 2004 included local government participation for one large project that is not typical of historical patterns and is not expected to continue at the FY 2004 level)
- FY 2005 appropriations are used, except all remaining appropriation authority valid for the 2005 biennium is used where biennial appropriations were approved
- All unspent prior and current biennia Long-range Building Program appropriations are used

The following assumptions were used for the 2007 biennium:

- Revenue estimates of the Revenue and Transportation Interim Committee are applied for gasoline and diesel taxes and gross vehicle weight fees
- FY 2005 revenues are used for all other revenues not estimated by the Revenue and Transportation Interim Committee, except other revenues were reduced by \$0.6 million for the final phase of the local government project
- The proposed executive budget is used for expenditures of agencies funded with HSRA

The following assumptions were used for years after FY 2007:

- Revenue and Transportation Interim Committee revenue estimate trends are carried forward for:
  - Gasoline tax revenues are at the level for FY 2007, inflated by 0.43 percent per year
  - Diesel tax revenues are at the HJR 2 level for FY 2007, inflated by 4.17 percent per year
- Indirect cost recovery revenue is at the current rate of 12.4 percent of the federal apportionment level
- FY 2007 revenues are used for all other revenues not estimated by the Revenue and Transportation Interim Committee
- Expenditures are at the FY 2007 budget request levels
- Long-range Building Program expenditures are at the historical appropriation level

#### Analysis Results

Figure 2 shows the revenues, expenditures, and beginning and ending working capital balances from FY 2004 through FY 2011 for HSRA. The figure shows that with current revenue sources and expenditure trends and assumptions, the working capital balance would be \$19.1 million at the end of the 2007 biennium. For each year of the 2007 biennium, expenditures would exceed revenues and deplete working capital of the account. The deficit situation would continue through the 2009 biennium until the alcohol production incentive of 15-70-522, MCA, terminates after FY 2010. The figure indicates the working capital balance would decline to \$4.7 million at the end of FY 2010. As discussed above, the federal funding levels for the current and future fiscal years are still uncertain. If federal funding increases above the \$325 million annual level assumed in the agency budget, more state matching funds would be needed above that shown on Figure 2. However, there is a natural delay between increases in federal funding levels and expenditure of the department that would likely delay the impact of a significant federal funding increase until the 2009 biennium, or until it could be addressed by the 2007 Legislature through an adjustment of FY 2007 appropriations.

<p align="center"><b>Figure 2</b>  <b>Working Capital Analysis - Highways State Special Revenue Account</b>  <b>Fiscal Years 2004 - 2011 Executive Budget (\$325 million per year federal funding level)</b>  <b>(in Millions)</b></p>								
Description	Fiscal 2004 Actual	Fiscal 2005 Approp.	Fiscal 2006 Estimate	Fiscal 2007 Estimate	Fiscal 2008 Estimate	Fiscal 2009 Estimate	Fiscal 2010 Estimate	Fiscal 2011 Estimate
Beginning Working Capital Balance	\$63.4	\$39.1	\$38.0	\$28.1	\$19.1	\$12.2	\$7.4	\$4.7
Revenues								
Gasoline tax	127.0	127.6	128.2	128.9	129.9	130.9	131.9	132.9
Diesel tax	60.8	63.3	65.9	68.7	69.7	70.8	71.8	72.8
Gross vehicle weight fees (GVW)	26.3	25.5	25.8	26.2	26.2	26.2	26.2	26.2
Indirect cost recovery (federal aid)	34.0	30.1	35.9	35.9	35.9	35.9	35.9	35.9
General fund transfer	0.0	0.0	3.1	3.1	3.1	3.2	3.2	3.3
Other revenues	7.9	4.5	3.9	3.9	3.9	3.9	3.9	3.9
Revenue deductions								
Alcohol production incentives (15-70-522, MCA)	0.0	0.0	-3.3	-6.0	-6.0	-6.0	-6.0	0.0
Ethanol consumption incentives (15-70-204/321, MCA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Revenues	\$256.0	\$250.9	\$259.4	\$260.6	\$262.6	\$264.7	\$266.8	\$274.9
Expenditures								
Department of Transportation (DOT)								
General Operations Program	19.7	20.3	20.0	20.0	20.0	20.0	20.0	20.0
Construction Program (federal aid program match)	70.2	63.9	67.8	69.7	69.7	69.7	69.7	69.7
Construction Program (state funded program - maintenance of effort)	10.0	8.1	10.0	10.0	10.0	10.0	10.0	10.0
Construction Program (state funded program - discretionary)	46.9	30.1	27.6	27.6	27.6	27.6	27.6	27.6
Maintenance Program	83.6	79.0	90.8	90.8	90.8	90.8	90.8	90.8
Motor Carriers Services	5.1	5.4	5.9	6.0	6.0	6.0	6.0	6.0
Transportation Planning	1.1	1.9	2.1	2.0	2.0	2.0	2.0	2.0
Total Department of Transportation	236.6	208.6	224.3	226.2	226.2	226.2	226.2	226.2
Statutory Appropriations	16.8	16.8	16.8	16.8	16.8	16.8	16.8	16.8
Department of Justice (DOJ)	23.2	24.0	25.5	23.6	23.6	23.6	23.6	23.6
Long-Range Building Program								
Maintenance and repair of MDT buildings	3.7	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Department of Fish, Wildlife & Parks	0.5	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total Long-Range Building Program	4.2	2.4	2.8	2.8	2.8	2.8	2.8	2.8
Transfer for noxious weeds (80-7-823, MCA)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total Expenditures	\$280.9	\$252.0	\$269.4	\$269.5	\$269.5	\$269.5	\$269.5	\$269.5
Revenues less expenditures	-24.8	-1.1	-10.0	-9.0	-6.9	-4.8	-2.7	5.4
Adjustments	0.5							
Ending Working Capital Balance	<u>\$39.1</u>	<u>\$38.0</u>	<u>\$28.1</u>	<u>\$19.1</u>	<u>\$12.2</u>	<u>\$7.4</u>	<u>\$4.7</u>	<u>\$10.1</u>

Delays between federal apportionment increases and expenditure increases are due to two factors:

- Planning and programming for highway projects
- Timing of payments to highway construction contractors because of the mixture of long-term and short-term duration projects

When federal funding is increased, it generally takes time to realign the highway construction plan documents to incorporate the changes so they meet system needs and public preferences, while adhering to financial districting laws and project funding constraints. Also, highway construction plans include a mixture of short-term and long-term projects with varying cash payout patterns. Long-term projects, such as major reconstruction or interchange installation, could be paid out over a number of fiscal years, while pavement or other less complex projects would experience a shorter pay out schedule.

The preference of the agency for funding the increased state match of federal funds above the anticipated \$325 million included in the budget is to use the state special revenue authority shown on Figure 2 as discretionary state funded construction. However, depending on the level of a federal funding increase, the 2007 Legislature may need to make policy decisions for state funding of agency operations. The policy decision could include among others:

- Expenditure reductions
- Revenue enhancements
- Turning back a portion of the federal funding

With the uncertainty in the level of federal funding and the likelihood that impacts would not directly impact the account in the 2007 biennium, it may be premature to take decisive actions to address a potential state special revenue shortage at this time.

#### *Common Adjustments in all Programs*

Two adjustments appear in nearly all programs and are summarized in Figure 3 to aid the legislature in seeing the combined impacts of the adjustments to all programs of the agency:

- Overtime and differential pay
- Equipment rental

The summary provides comparisons for the adjustments against base expenditures for each adjustment.

#### Overtime and Differential Pay

An adjustment to establish funding for overtime and differential pay is included in all programs. In all cases, the requested funding is the amount expended in the base with 15 percent added to fund salary related costs for benefits, insurance, and employer taxes. The figure shows the requested amounts for the biennium and the base expenditure. The base expenditures are doubled to show biennium comparisons. For the biennium, \$13.7 million would fund overtime and differential pay for department FTE funded in HB 2. Additional funding for overtime and differential pay is included in the rates for proprietary funded programs, such as the State Motor Pool and the Equipment Program.

#### Equipment Rental

The department operates a proprietary funded program to purchase and maintain equipment used exclusively by programs of the department. The Equipment Program manages the equipment items that support the functions of the department, such as snowplows and sanders, motor carrier services enforcement vehicles, and lawn and weed mowers. Programs fund the Equipment Program by paying for usage of the equipment. The Equipment Program has requested increases to the rates it charges. The adjustments shown under the Equipment Rental heading on the figure are requested to provide funding to pay the increases in the Equipment Program rates for the 2007 biennium. A discussion of the requested equipment rental rates is contained in the proprietary discussion for the Equipment Program.

Figure 3 Common Decision Packages Overtime and Differential Pay and Equipment Rental							
Program		Overtime	Differential Pay	Benefits (15 percent)	Total		Equipment Rental
01 - General Opreations	DP 105	\$105,080	\$9,468	\$17,184	\$131,732	DP 106	\$10,866
	Base x 2	<u>105,080</u>	<u>9,468</u>			Base x 2	<u>83,118</u>
	Change	<u>\$0</u>	<u>\$0</u>			Growth	<u>13.1%</u>
02 - Construction	DP 209	7,375,318	240,208	1,142,332	\$8,757,858	DP 210	737,191
	Base x 2	<u>7,376,632</u>	<u>238,894</u>			Base x 2	<u>5,639,940</u>
	Change	<u>-1,314</u>	<u>\$1,314</u>			Growth	<u>13.1%</u>
03 - Maintenance	DP 311	3,716,868	420,656	620,626	\$4,758,150	DP 308	4,116,525
	Base x 2	<u>3,716,868</u>	<u>420,656</u>			Base x 2	<u>31,363,450</u>
	Change	<u>\$0</u>	<u>\$0</u>			Growth	<u>13.1%</u>
22 - Motor Carrier Services	DP 2202	65,348	31,646	14,548	\$111,542	DP 2203	35,196
	Base x 2	<u>65,348</u>	<u>31,646</u>			Base x 2	<u>288,722</u>
	Change	<u>\$0</u>	<u>\$0</u>			Growth	<u>12.2%</u>
40 - Aeronautics	DP 210	0	6,574	986	\$7,560		
	Base x 2	<u>0</u>	<u>6,574</u>				
	Change	<u>\$0</u>	<u>\$0</u>				
50 - Transportation Planning	DP 5005	1,506	3,532	758	\$5,796	DP 5006	63,592
	Base x 2	<u>1,506</u>	<u>3,532</u>			Base x 2	<u>226,354</u>
	Change	<u>\$0</u>	<u>\$0</u>			Growth	<u>28.1%</u>
Total for all programs					<u>\$13,772,638</u>		<u>\$4,963,370</u>

### Funding

The following table summarizes funding for the agency, by program and sources, as recommended by the Governor. Funding for each program is discussed in detail in the individual program narratives.

Total Agency Funding 2007 Biennium Executive Budget				
Agency Program	State Spec.	Fed Spec.	Grand Total	Total %
01 General Operations Program	\$ 40,060,343	\$ 1,659,127	\$ 41,719,470	3%
02 Construction Program	305,791,618	629,795,406	935,587,024	77%
03 Maintenance Program	181,786,206	14,738,195	196,524,401	16%
22 Motor Carrier Services Div.	11,950,195	2,450,000	14,400,195	1%
40 Aeronautics Program	3,124,357	3,123,629	6,247,986	1%
50 Transportation Planning Divisi	<u>4,594,353</u>	<u>16,881,922</u>	<u>21,476,275</u>	<u>2%</u>
Grand Total	<u>\$ 547,307,072</u>	<u>\$ 668,648,279</u>	<u>\$ 1,215,955,351</u>	<u>100%</u>



**Biennium Budget Comparison**

The following table compares the executive budget request in the 2007 biennium with the 2005 biennium by type of expenditure and source of funding. The 2005 biennium consists of actual FY 2004 expenditures and FY 2005 appropriations.

Biennium Budget Comparison								
Budget Item	Present Law Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	Present Law Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Biennium Fiscal 04-05	Total Exec. Budget Fiscal 06-07
FTE	2,216.78	13.63	2,230.41	2,187.78	17.50	2,205.28	2,176.13	2,205.28
Personal Services	113,546,342	808,404	114,354,746	112,814,604	1,015,065	113,829,669	214,401,749	228,184,415
Operating Expenses	468,259,161	4,434,475	472,693,636	456,334,555	2,165,815	458,500,370	864,939,223	931,194,006
Equipment	1,518,438	549,254	2,067,692	1,518,438	67,244	1,585,682	2,694,342	3,653,374
Capital Outlay	16,050,157	0	16,050,157	16,050,157	0	16,050,157	27,858,380	32,100,314
Local Assistance	95,225	0	95,225	95,225	0	95,225	894,600	190,450
Grants	10,800,925	0	10,800,925	9,767,925	0	9,767,925	22,231,654	20,568,850
Transfers	18,221	0	18,221	18,221	0	18,221	43,673	36,442
Debt Service	750	0	750	750	26,000	26,750	1,500	27,500
Total Costs	\$610,289,219	\$5,792,133	\$616,081,352	\$596,599,875	\$3,274,124	\$599,873,999	\$1,133,065,121	\$1,215,955,351
State/Other Special	285,105,325	2,162,370	287,267,695	258,307,516	1,731,861	260,039,377	494,957,487	547,307,072
Federal Special	325,183,894	3,629,763	328,813,657	338,292,359	1,542,263	339,834,622	638,107,634	668,648,279
Total Funds	\$610,289,219	\$5,792,133	\$616,081,352	\$596,599,875	\$3,274,124	\$599,873,999	\$1,133,065,121	\$1,215,955,351

**New Proposals**

The "New Proposal" table summarizes all new proposals requested by the executive. Descriptions and LFD discussion of each new proposal are included in the individual program narratives.

New Proposals										
Program	FTE	-----Fiscal 2006-----				-----Fiscal 2007-----				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - Integrated Financials										
01	5.00	0	646,883	0	646,883	6.00	0	672,374	0	672,374
DP 102 - Remote Computer Connectivity										
01	0.00	0	250,000	0	250,000	0.00	0	250,000	0	250,000
DP 207 - Runway Rehab Lincoln Airport										
40	0.00	0	119,987	2,279,763	2,399,750	0.00	0	7,487	142,263	149,750
DP 208 - Aircraft Engine and Propeller - Biennial										
40	0.00	0	32,000	0	32,000	0.00	0	0	0	0
DP 209 - Aircraft purchase										
40	0.00	0	356,000	0	356,000	0.00	0	32,000	0	32,000
DP 307 - City Rest Area										
03	0.00	0	75,000	0	75,000	0.00	0	75,000	0	75,000
DP 2201 - MT/WY Dietz Joint Port of Entry										
22	0.00	0	345,000	0	345,000	0.00	0	345,000	0	345,000
DP 2205 - Transfer MCSAP from the Dept of Justice (Requires Legislation)										
22	8.63	0	262,500	1,050,000	1,312,500	11.50	0	350,000	1,400,000	1,750,000
DP 5007 - Corridor Studies										
50	0.00	0	75,000	300,000	375,000	0.00	0	0	0	0
<b>Total</b>	<b>13.63</b>	<b>\$0</b>	<b>\$2,162,370</b>	<b>\$3,629,763</b>	<b>\$5,792,133</b>	<b>17.50</b>	<b>\$0</b>	<b>\$1,731,861</b>	<b>\$1,542,263</b>	<b>\$3,274,124</b>

**Language**

"The department may adjust appropriations in the general operations, construction, maintenance, and transportation planning programs between state special revenue and federal special revenue fund types if the total state special revenue authority for these programs is not increased by more than 10 percent of the total appropriations established by the legislature for each program. All transfers between state special revenue and federal special revenue funds must be fully explained, justified, and reported in accordance with the requirements of 17-7-138 or 17-7-139, MCA, as applicable."

**LFD  
ISSUE***Language to Adjust Funding in the Special Revenue Fund Type- Implication*

Past legislatures have approved the language proposed to be included in HB 2 granting authority to adjust appropriations in the designated programs between funds of the special revenue fund type. With the language, the executive would authorize changes to the operating plans by adjusting appropriations made by the legislature between funds derived from state and other non-federal sources and funds derived from federal sources that are both intended for the same use. The language would restrict the amount of funding from state and other non-federal sources to no more than the 110 percent of the appropriations from state special revenue for the programs.

Implementation of funding adjustments under the language would not adjust the overall level of appropriations from the special revenue fund type, but would change the proportions of funding between state and federal sources. The implication is that the highways state special revenue account could fund a higher percentage of the activities of the department than the legislature anticipated when the funding for the department was appropriated. As stated, the highways state special revenue account is in jeopardy of operating in a deficit condition with expenditures exceeding revenues and fund balance depleted. Approval of the above language could impact the onset of when the fund balance is depleted.

The department has historically relied on the language to adjust funding for appropriations during the interim when actual expenditure patterns on federal-aid projects differ from projected expenditure patterns. The department first makes all expenditures with highways state special revenue and then makes accounting entries to adjust the funding when federal reimbursement is received on qualifying activities. When activities that qualify for federal reimbursement don't occur in accordance with the timing used to develop the funding for the budgets of the designated programs, funding adjustments are implemented to match actual expenditure patterns. The funding adjustments typically occur only at the end of a fiscal year or when projected expenditures of an appropriation are higher for one type of fund within the special revenue fund type and the appropriation for the fund source would be depleted with appropriations from the other fund source.

The proposed language provides the agency significantly more flexibility in fund adjustments than any other agency, and it is powerful language. Depending upon the level the legislature wishes to exercise highways state special revenue expenditures, it could:

- 1) Not approve the language; or
- 2) Approve similar language containing more restrictive provisions, such as a lower limitation on highways state special revenue increase or specific condition when the funding adjustment could be made.

"All federal special revenue appropriations in the department are biennial."

"All appropriations in the general operations, construction, maintenance, and transportation planning programs are biennial."

"All remaining federal pass-through grant appropriations for highway traffic safety, including reversions, for the 2005 biennium are authorized to continue and are appropriated in fiscal year 2006 and fiscal year 2007."

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	164.77	0.00	5.00	169.77	0.00	6.00	170.77	170.77
Personal Services	8,227,383	348,321	203,986	8,779,690	347,333	208,753	8,783,469	17,563,159
Operating Expenses	11,505,433	(594,039)	596,897	11,508,291	(617,786)	713,621	11,601,268	23,109,559
Equipment	399,626	0	96,000	495,626	0	0	399,626	895,252
Grants	75,000	0	0	75,000	0	0	75,000	150,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	750	0	0	750	0	0	750	1,500
<b>Total Costs</b>	<b>\$20,208,192</b>	<b>(\$245,718)</b>	<b>\$896,883</b>	<b>\$20,859,357</b>	<b>(\$270,453)</b>	<b>\$922,374</b>	<b>\$20,860,113</b>	<b>\$41,719,470</b>
State/Other Special	19,466,174	(322,104)	896,883	20,040,953	(369,158)	922,374	20,019,390	40,060,343
Federal Special	742,018	76,386	0	818,404	98,705	0	840,723	1,659,127
<b>Total Funds</b>	<b>\$20,208,192</b>	<b>(\$245,718)</b>	<b>\$896,883</b>	<b>\$20,859,357</b>	<b>(\$270,453)</b>	<b>\$922,374</b>	<b>\$20,860,113</b>	<b>\$41,719,470</b>

**Program Description**

The General Operations Program administers motor fuel taxes and provides administrative support services for the department, including general administration and management, accounting and budgeting, public affairs, information technology services, human resources activities, compliance review, and goods and services procurement.

**Program Highlights**

<b>Department of Transportation</b> <b>General Operations Program</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$1.3 million for the biennium over the base (an average annual increase of 3 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Modifications and enhancements to computerized management systems</li> <li>Increased video conferencing fees</li> <li>Expansion of services for disadvantaged business enterprises</li> <li>Enhancements in compliance to federal human resource laws</li> <li>Funding for base year levels of overtime and differential pay</li> </ul> </li> <li>Fixed costs are reduced by nearly \$1.4 million due primarily to lower allocation of insurance and bonding costs from the Risk Management and Tort Division of the Department of Administration</li> <li>A project to integrate department management systems and financial systems that is expected to last several biennia would add 6.00 FTE by the end of the biennium and increase funding by \$1.3 million</li> </ul>	

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the governor.

Program Funding Table						
General Operations Progr						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02422 Highways Special Revenue	\$ 19,466,174	96.3%	\$ 20,040,953	96.1%	\$ 20,019,390	96.0%
03407 Highway Trust - Sp Rev	742,018	3.7%	818,404	3.9%	840,723	4.0%
Grand Total	\$ 20,208,192	100.0%	\$ 20,859,357	100.0%	\$ 20,860,113	100.0%

The General Operations Program is funded from the highways state special revenue fund and federal special revenue. The highways state special revenue fund receives revenue primarily from motor fuel taxes, gross vehicle weight permit fees, and reimbursements for indirect costs associated with the federal-aid highway program via a Federal Highways Administration (FHWA) approved indirect cost plan. Federal funding is available for assistance for disadvantaged businesses, training, fuel tax evasion prevention efforts, and direct administrative expenses associated with the federal-aid highway program.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				637,030					636,003
Vacancy Savings				(354,575)					(354,536)
Inflation/Deflation				(323,706)					(323,679)
Fixed Costs				(701,425)					(678,623)
<b>Total Statewide Present Law Adjustments</b>				<b>(\$742,676)</b>					<b>(\$720,835)</b>
DP 103 - Commercial Vehicle Operations Enhancements									
0.00	0	126,566	106,265	232,831	0.00	0	126,566	106,265	232,831
DP 104 - Local Option Tax (Requires Legislation)									
0.00	0	50,000	0	50,000	0.00	0	0	0	0
DP 105 - Overtime and Differential Pay									
0.00	0	65,866	0	65,866	0.00	0	65,866	0	65,866
DP 106 - Equipment Rental									
0.00	0	5,441	0	5,441	0.00	0	5,425	0	5,425
DP 108 - Human Resource Compliance									
0.00	0	10,943	0	10,943	0.00	0	10,934	0	10,934
DP 109 - DBE Support Services Expansion									
0.00	0	0	57,827	57,827	0.00	0	0	57,826	57,826
DP 110 - Video Conferencing									
0.00	0	10,800	0	10,800	0.00	0	10,800	0	10,800
DP 111 - Fuel Tax Evasion									
0.00	0	5,000	58,250	63,250	0.00	0	5,000	61,700	66,700
<b>Total Other Present Law Adjustments</b>									
0.00	\$0	\$274,616	\$222,342	\$496,958	0.00	\$0	\$224,591	\$225,791	\$450,382
<b>Grand Total All Present Law Adjustments</b>				<b>(\$245,718)</b>					<b>(\$270,453)</b>

**DP 103 - Commercial Vehicle Operations Enhancements** - Increases of \$253,132 state special revenue and \$212,530 federal special revenue for the biennium are requested to provide enhancements to the software used by the department to administer and enforce state and federal commercial motor carrier laws and regulations.

**LFD  
ISSUE***One-Time Funding for Enhancements*

The base includes \$725,000 for ongoing maintenance costs of the system. Enhancements costs are not typically ongoing. Therefore, the legislature may wish to designate the appropriation for system enhancements as one time

DP 104 - Local Option Tax (Requires Legislation) - An increase of \$50,000 state special revenue for the biennium is requested to modify the department fuel tax administration system to incorporate a local option tax.

**LFD  
ISSUE***One-Time Funding for Modifications*

System modification costs are not typically ongoing. Therefore, the legislature may wish to designate the appropriation for modifying the fuel tax administration system to incorporate a local option tax as one time.

**LFD  
COMMENT***Contingent on Legislation – Cost Impacts*

Cost estimates are based on passage of LC 187, which would eliminate current department duties to provide refunds for off-road use associated with local option taxes. If LC 187 does not pass, the costs to modify the system would be higher. According to the department, a preliminary estimate to the system to accommodate refunds if LC 187 does not pass is \$75,000. However, a detailed estimate has not been completed.

DP 105 - Overtime and Differential Pay - An increase of \$131,732 state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$17,184 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 106 - Equipment Rental - An increase of \$10,866 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

DP 108 - Human Resource Compliance - An increase of \$21,887 state special revenue for the biennium is requested to provide on-site compliance reviews of disadvantaged business enterprises and to develop and maintain records to verify contractor compliance with federal labor and equal employment opportunity requirements.

DP 109 - DBE Support Services Expansion - An increase of \$115,653 federal special revenue for the biennium is requested to expand services to disadvantaged business enterprise (DBE) companies. Expanded services to DBE companies proposed in this request are for increased reimbursements, additional meetings and training workshops, an improved monthly newsletter, and additional marketing and financial assistance.

DP 110 - Video Conferencing - An increase of \$21,600 state special revenue for the biennium is requested to fund video conferencing fees for seven video conferencing units added at the end of FY 2004. The request would fund video conferencing fees paid to the Information Technology Services Division of the Department of Administration under a service level agreement. The seven new sites funded in the adjustment are in addition to the existing six sites funded in the base budget.

DP 111 - Fuel Tax Evasion - Increases of \$10,000 state special revenue and \$119,950 federal special revenue for the biennium are requested for fuel tax evasion activities. Funding would develop and maintain an interface between the management system used to monitor fuel distributor data and the system to administer and enforce state and federal commercial motor carrier laws and regulations. This request would also fund purchases of fuel tax evasion enforcement training videos, mobile audio/video recorders, and maintenance of an increased number of cell phones for Motor Carrier Services enforcement officers.

### New Proposals

New Proposals										
-----Fiscal 2006-----						-----Fiscal 2007-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 101 - Integrated Financials										
01	5.00	0	646,883	0	646,883	6.00	0	672,374	0	672,374
DP 102 - Remote Computer Connectivity										
01	0.00	0	250,000	0	250,000	0.00	0	250,000	0	250,000
Total	5.00	\$0	\$896,883	\$0	\$896,883	6.00	\$0	\$922,374	\$0	\$922,374

DP 101 - Integrated Financials - An increase of about \$1.3 million state special revenue for the biennium is requested for a long-term project to integrate department management systems used for resource and project planning and scheduling, and financial planning, monitoring, and administration. The request includes funding for 5.00 FTE in FY 2006 and 6.00 FTE in FY 2007.

#### LFD COMMENT

#### *Previous Legislative Funding – New Direction*

The 2003 Legislature provided \$4.5 million one-time funding for the department to integrate financial management systems and develop a common data warehouse during the 2005 biennium. The department had concerns over the adequacy of the funding and the intent of the legislature and decided to forego activities on the project during the 2005 biennium. None of the appropriation authorized for the system was expended.

The current plan for the integrated financials project calls for designing multiple smaller projects in incremental steps intended to reduce the risks associated with full implementation of one large-scale enterprise-wide project. It also provides for making investment decisions based on business process and system analyses. The goal of this approach is to be able to make decisions to move forward with each incremental step without sacrificing the benefits gained from the investment made in the prior steps. As such, the request proposes a longer-term overall project that could take up to eight years to complete.

The project focuses on defining the business processes necessary to integrate department resource planning efforts with department financial processes for developing and monitoring budgets, planning and monitoring the use of federal obligation authority, and managing cash reserves. Ultimately, the department intends to maximize the use of the existing department project scheduling system and the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

The department is using base funding to update management systems from older software platforms to the state standard Oracle platform. Assuming all portions of the project are completed as currently envisioned, the full project is estimated to cost from \$8 million to \$18 million.

DP 102 - Remote Computer Connectivity - An increase of \$500,000 state special revenue for the biennium is requested to provide high-speed remote access for the roughly 300 remote department worksites across the state that currently connect to department computer networks via slow-speed dialup connections.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	1,069.59	40.65	0.00	1,110.24	11.65	0.00	1,081.24	1,081.24
Personal Services	52,793,815	6,090,053	0	58,883,868	5,290,771	0	58,084,586	116,968,454
Operating Expenses	290,599,940	103,874,326	0	394,474,266	92,539,192	0	383,139,132	777,613,398
Equipment	857,670	0	0	857,670	0	0	857,670	1,715,340
Capital Outlay	15,526,338	473,663	0	16,000,001	473,663	0	16,000,001	32,000,002
Local Assistance	95,225	0	0	95,225	0	0	95,225	190,450
Grants	3,549,690	0	0	3,549,690	0	0	3,549,690	7,099,380
<b>Total Costs</b>	<b>\$363,422,678</b>	<b>\$110,438,042</b>	<b>\$0</b>	<b>\$473,860,720</b>	<b>\$98,303,626</b>	<b>\$0</b>	<b>\$461,726,304</b>	<b>\$935,587,024</b>
State/Other Special	126,894,127	38,852,572	0	165,746,699	13,150,792	0	140,044,919	305,791,618
Federal Special	236,528,551	71,585,470	0	308,114,021	85,152,834	0	321,681,385	629,795,406
<b>Total Funds</b>	<b>\$363,422,678</b>	<b>\$110,438,042</b>	<b>\$0</b>	<b>\$473,860,720</b>	<b>\$98,303,626</b>	<b>\$0</b>	<b>\$461,726,304</b>	<b>\$935,587,024</b>

**Program Description**

The Construction Program is responsible for construction project planning and development from the time a project is included in the long-range work plan through the actual construction of the project. Program responsibilities include such tasks as project designs, environmental documents and permits, right-of-way acquisitions, issuing contract bids, awarding contracts, and administering construction contracts. Contract administration is responsible for the documentation, inspection, and testing of highway construction projects from the time the contract is awarded to a private contractor until the project is completed and the work is approved as meeting established construction standards. The program also provides traffic improvement and educational programs to promote public safety, health, and welfare.

**Program Highlights**

<b>Department of Transportation</b> <b>Construction Program</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$208.7 million for the biennium over the base (an average annual increase of 29 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Increases for highway construction related costs in anticipation of higher levels of federal funding</li> <li>Reappropriation of state special revenue approved for the 2005 biennium to accelerate widening and upgrades of Highway 93</li> <li>Adjustments to fully fund aggregate positions</li> <li>Funding for base year levels of overtime and differential pay</li> <li>An increase in funding for the community transportation enhancement program</li> </ul> </li> <li>The state funded construction program would be reduced by about \$38.5 million state special revenue for the biennium to reduce fully state funded construction funding to the minimum level needed to</li> </ul>	

- obtain a favorable federal funding rate
- Additional traffic engineers would add 2.00 FTE and nearly \$237,000 total funds
- An adjustment to match construction management personnel with anticipated construction activities would add funding for 38.65 FTE in FY 2006 and 9.65 FTE in FY 2007 and \$3.5 million total funds

### Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table						
Construction Program						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02422 Highways Special Revenue	\$ 126,894,127	34.9%	\$ 105,417,831	22.2%	\$ 107,373,269	23.3%
02799 Highway 93 Bond Proceeds	-	-	60,328,868	12.7%	32,671,650	7.1%
03407 Highway Trust - Sp Rev	226,691,340	62.4%	299,841,523	63.3%	313,413,047	67.9%
03828 Traffic Safety	<u>9,837,211</u>	<u>2.7%</u>	<u>8,272,498</u>	<u>1.7%</u>	<u>8,268,338</u>	<u>1.8%</u>
Grand Total	<u>\$ 363,422,678</u>	<u>100.0%</u>	<u>\$ 473,860,720</u>	<u>100.0%</u>	<u>\$ 461,726,304</u>	<u>100.0%</u>

Costs eligible for reimbursement under the federal-aid construction program are funded with highways state special revenue funds and federal special revenue funds apportioned to Montana and distributed by the U.S. Department of Transportation. Construction design, construction, and construction management costs, as well as direct administrative costs for construction activities, are generally eligible for federal reimbursement. The state match requirement is based on a sliding scale match, which is currently 87 percent federal with a 13 percent state match for most direct construction related costs. The program also provides a maintenance-of-effort highway construction program funded entirely with highways state special revenue. The primary sources of revenue for the highways state special revenue funds are highway-user fees derived from motor fuel taxes and gross vehicle weight fees. Traffic safety functions are generally funded 100 percent with National Highway Traffic Safety Administration grant funds. The exception is that a 50 percent state special revenue match is required for roughly 1 percent of the administrative costs.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.



Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				1,074,054						1,029,065
Vacancy Savings				(2,154,706)						(2,152,917)
Inflation/Deflation				(5,383)						(5,436)
Fixed Costs				(16,703)						(16,594)
<b>Total Statewide Present Law Adjustments</b>				<b>(\$1,102,738)</b>						<b>(\$1,145,882)</b>
DP 201 - Traffic Engineers										
2.00	0	46,067	72,509	118,576	2.00	0	45,953	72,299	118,252	
DP 202 - Contractor Payments/State Construction Program										
0.00	0	(19,211,644)	0	(19,211,644)	0.00	0	(19,273,491)	0	(19,273,491)	
DP 203 - Contractor Payments/Federal Aid Construction Prog										
0.00	0	7,084,835	53,359,232	60,444,067	0.00	0	9,140,144	67,939,449	77,079,593	
DP 204 - US HWY 93										
0.00	0	60,328,868	0	60,328,868	0.00	0	32,671,650	0	32,671,650	
DP 205 - Construction Management FTE										
38.65	0	701,656	1,552,298	2,253,954	9.65	0	428,178	819,428	1,247,606	
DP 206 - Aggregate Position Funding										
0.00	0	520,792	1,152,167	1,672,959	0.00	0	523,302	1,149,657	1,672,959	
DP 207 - Right-of-Way/Utilities										
0.00	0	137,855	648,090	785,945	0.00	0	138,484	647,461	785,945	
DP 208 - Community Transportation Enhancement Program										
0.00	0	51,200	348,800	400,000	0.00	0	51,920	348,080	400,000	
DP 209 - Overtime and Differential Pay										
0.00	0	2,029,634	2,349,295	4,378,929	0.00	0	2,034,888	2,344,041	4,378,929	
DP 210 - Equipment Rental										
0.00	0	147,724	221,402	369,126	0.00	0	151,496	216,569	368,065	
<b>Total Other Present Law Adjustments</b>										
<b>40.65</b>	<b>\$0</b>	<b>\$51,836,987</b>	<b>\$59,703,793</b>	<b>\$111,540,780</b>	<b>11.65</b>	<b>\$0</b>	<b>\$25,912,524</b>	<b>\$73,536,984</b>	<b>\$99,449,508</b>	
<b>Grand Total All Present Law Adjustments</b>				<b>\$110,438,042</b>					<b>\$98,303,626</b>	

DP 201 - Traffic Engineers - Increases of \$92,020 state special revenue and \$144,808 federal special revenue for the biennium are requested to fund the addition of 2.00 FTE traffic engineering specialists for each year. The traffic engineers would address increasing demand for traffic engineering work in the preliminary engineering design and project development phases of federal-aid highway construction projects and in the hazards elimination safety program.

DP 202 - Contractor Payments/State Construction Program - A reduction of about \$38.5 million state special revenue for the biennium is proposed to reduce the state funded construction program to the minimum amount of state maintenance of effort required to receive a favorable federal participation rate on federal aid projects.

**LFD ISSUE** *State Funded Construction is not Reduced to the Minimum Amount for Maintenance of Effort*

The executive states in its request that the state funded construction program would be reduced to the minimum amount of state maintenance of effort required to receive a favorable federal participation rate on federal aid projects. However, the base expenditures include \$56.9 million state funded construction program expenditures, while the minimum maintenance of effort has been determined to be roughly \$10.0 million per year. By adjusting the base by \$19.2 million each year, the annual state funded construction program would only be reduced to \$37.7 million or about \$27.7 more than the minimum maintenance of effort. If leveraged for federal match, this amount could generate \$185.4 million federal funds.

DP 203 - Contractor Payments/Federal Aid Construction - Increases of about \$16.2 million state special revenue and \$121.3 million federal special revenue for the biennium are requested to fund payments to highway construction contractors based on department estimates of federal-aid funding and the corresponding long-range highway construction plan.

**LFD  
COMMENT***Estimating Contractor Payment Amounts*

Based on planned construction activities, the department uses several management systems to estimate resource usage and payout schedules on highway construction projects. The tentative construction plan (TCP) indicates when the various highway construction projects will be let and the type of work to be completed. This construction contract information is used in the Project Cost Scheduling (PCS) system to estimate when and at what amounts actual contractor payments will be made. The estimates from these management systems form the basis for the contractor payments budget request.

DP 204 - US HWY 93 - The department has accelerated the construction process on US Highway 93 from Evaro Hill to Polson to double the current traffic capacity and address safety problems. Highway revenue bonds would be issued to provide the funding for this accelerated schedule. This request is for \$93.0 million state special revenue for the 2007 biennium to provide debt service for the bond issue.

The sale of bonds, with the proceeds deposited in a special revenue fund, would provide the funding to construct these projects in three years, whereby it would normally require ten or more years to design and construct projects of this magnitude. Because the highway runs through the Flathead Indian Reservation, the entire cost of the project qualifies for federal funding with no state match. As the bonds mature and are redeemed, federal aid from the Federal Highway Administration (FHWA) would pay for the bonds and interest.

**LFD  
COMMENT***Project Delays – No Base Expenditures*

Funding for this project was approved by the 2003 legislature, but no expenditures were made during the base year. Project delays caused by difficult right-of-way negotiations, slower than anticipated approval of environmental permits, and slower than anticipated negotiations on agreements for settling project issues that involved coordinated actions between state, federal, and tribal governments. Utility relocation activities associated with the projects have also added further delays. One contract has been awarded for a portion of the work and additional contracts are anticipated for work during FY 2005.

DP 205 - Construction Management FTE - The department estimates FTE and engineering costs via the Construction Management System (CMS) using standards that apply to the proposed construction plan. This adjustment would fund increases of 38.65 FTE in FY 2006 and 9.65 FTE in FY 2007, in combination with adjustments for preliminary and construction engineering functions in support of highway construction. The request is for increases of \$1,129,834 state special revenue and \$2,371,726 federal special revenue for the biennium.

DP 206 - Aggregate Position Funding - The Construction Program has certain organizational units that have aggregate positions (a position with several FTE). The people in these positions vary in experience from entry to highly experienced. The Montana Budgeting and Reporting System (MBARS) calculates funding for personal services by computing costs for all the FTE in a position at the rate of the most recent employee in that position. Through this process, all FTE in an aggregate position are funded based on the position attributes of the person most recent to the position. In most cases, that person is the lowest paid person in the position. Therefore, other FTE in the position are not fully funded. The department uses a system called the Personal Services Budget Management System (PSBM) to compute the actual amount of funding needed to fully fund each person in the position. This request is for \$1,044,094 state special revenue and \$2,301,824 federal special revenue for the biennium to fully fund all aggregate positions in the Construction Program based on position incumbents.

DP 207 - Right-of-Way/Utilities - Increases of \$276,339 state special revenue and \$1,295,551 federal special revenue for the biennium are requested to fund utility relocation activities and purchase right-of-way for the expected increase in highway construction projects that would result from expected higher federal funding levels when the U.S. Congress reauthorizes federal highway funding.

DP 208 - Community Transportation Enhancement Program - The community transportation enhancement program (CTEP) provides nontraditional transportation related projects that are designed to strengthen the cultural, aesthetic, and environmental aspects of the inter-modal transportation system in Montana. Increases of \$103,120 state special revenue and \$696,880 federal special revenue for the biennium are requested to increase funding for CTEP to levels expected for the 2007 biennium under allocation formulas of federal-aid highway funding.

DP 209 - Overtime and Differential Pay - Increases of \$4,064,522 state special revenue and \$4,693,336 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay. Included in the increases is \$1,142,332 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 210 - Equipment Rental - Increases of \$299,220 state special revenue and \$437,971 federal special revenue for the biennium are requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	761.17	0.00	0.00	761.17	0.00	0.00	761.17	761.17
Personal Services	35,186,585	3,174,965	0	38,361,550	3,244,311	0	38,430,896	76,792,446
Operating Expenses	56,190,657	3,287,287	75,000	59,552,944	3,359,068	75,000	59,624,725	119,177,669
Equipment	164,987	62,000	0	226,987	62,000	0	226,987	453,974
Capital Outlay	7,156	43,000	0	50,156	43,000	0	50,156	100,312
<b>Total Costs</b>	<b>\$91,549,385</b>	<b>\$6,567,252</b>	<b>\$75,000</b>	<b>\$98,191,637</b>	<b>\$6,708,379</b>	<b>\$75,000</b>	<b>\$98,332,764</b>	<b>\$196,524,401</b>
State/Other Special	83,203,653	7,606,205	75,000	90,884,858	7,622,695	75,000	90,901,348	181,786,206
Federal Special	8,345,732	(1,038,953)	0	7,306,779	(914,316)	0	7,431,416	14,738,195
<b>Total Funds</b>	<b>\$91,549,385</b>	<b>\$6,567,252</b>	<b>\$75,000</b>	<b>\$98,191,637</b>	<b>\$6,708,379</b>	<b>\$75,000</b>	<b>\$98,332,764</b>	<b>\$196,524,401</b>

**Program Description**

The Maintenance Program is responsible for preserving and maintaining a safe and environmentally sound state highway transportation system and related facilities. Major activities include sign maintenance and repair, and patching, repairing, and periodic sealing of highway surfaces and structures; snow removal; and sanding.

**Program Highlights**

<b>Department of Transportation</b> <b>Maintenance Program</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$13.4 million for the biennium over the base (an average annual increase of 7 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Additional maintenance cost for state assumption of city park rest areas</li> <li>Replacement of radio communications equipment</li> <li>Increased funding to control noxious weeds along state highways</li> <li>Adjustment to base expenditures for pavement marking contracts due to low base year expenditures</li> <li>Component replacement and expansion of the remote weather information system</li> <li>Funding for base year levels of overtime and differential pay</li> </ul> </li> <li>State funding replacement of federal funding for the 511 traveler information system would add \$160,000</li> </ul>	

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table Maintenance Program						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02422 Highways Special Revenue	\$ 83,203,653	90.9%	\$ 90,884,858	92.6%	\$ 90,901,348	92.4%
03407 Highway Trust - Sp Rev	8,345,732	9.1%	7,306,779	7.4%	7,431,416	7.6%
Grand Total	\$ 91,549,385	100.0%	\$ 98,191,637	100.0%	\$ 98,332,764	100.0%

The Maintenance Program is primarily funded with highways state special revenue. Federal special revenue also funds a portion of the costs associated with the road reporter functions as well as qualifying highway maintenance activities determined by the Federal Highway Administration to extend the life of the highway.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----						-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				2,295,189					2,367,443	
Vacancy Savings				(1,499,299)					(1,502,207)	
Inflation/Deflation				89,796					83,971	
Fixed Costs				(500)					(500)	
Total Statewide Present Law Adjustments				\$885,186					\$948,707	
DP 301 - Additional Secondary Roads	0.00	0	234,552	0	234,552	0.00	0	316,152	0	316,152
DP 304 - Communications - Two Way Radios	0.00	0	256,918	0	256,918	0.00	0	256,919	0	256,919
DP 305 - Rest Areas, Vaults and New Utilities	0.00	0	361,611	0	361,611	0.00	0	361,611	0	361,611
DP 306 - RWIS System Maintenance and Expansion	0.00	0	230,075	0	230,075	0.00	0	230,075	0	230,075
DP 308 - Equipment Rental	0.00	0	2,060,428	0	2,060,428	0.00	0	2,056,097	0	2,056,097
DP 309 - Biennial Appropriation Adjustments	0.00	0	(846,497)	0	(846,497)	0.00	0	(846,497)	0	(846,497)
DP 310 - Pavement Markings	0.00	0	115,348	404,471	519,819	0.00	0	115,348	404,471	519,819
DP 311 - Overtime and Differential Pay	0.00	0	2,379,075	0	2,379,075	0.00	0	2,379,075	0	2,379,075
DP 313 - 511 Travelers information Program	0.00	0	80,000	0	80,000	0.00	0	80,000	0	80,000
DP 314 - Noxious Weed Control	0.00	0	305,336	0	305,336	0.00	0	305,336	0	305,336
DP 315 - City Maintenance Contracts	0.00	0	57,749	0	57,749	0.00	0	58,085	0	58,085
DP 316 - Land Acquisition	0.00	0	43,000	0	43,000	0.00	0	43,000	0	43,000
Total Other Present Law Adjustments										
	0.00	\$0	\$5,277,595	\$404,471	\$5,682,066	0.00	\$0	\$5,355,201	\$404,471	\$5,759,672
Grand Total All Present Law Adjustments					\$6,567,252					\$6,708,379

DP 301 - Additional Secondary Roads - An increase of \$550,704 state special revenue for the biennium is requested to purchase materials to maintain 105.5 additional centerline miles of paved secondary roads assumed from counties under the authority of 60-2-203, MCA. Materials that would be purchased include such items as traffic paint, winter materials, replacement signs, and sand.

DP 304 - Communications - Two Way Radios - An increase of \$513,837 state special revenue for the biennium is requested to: 1) replace obsolete two-way mobile radio communication equipment used by field personnel of the Maintenance Program, Construction Program, and Motor Carrier Services Divisions in Great Falls, Butte, and Helena; and 2) fund increased operating costs for new telephone systems installed in Bozeman, Havre, and Shelby at the end of FY 2004.

**LFD  
COMMENT***Funding Would Establish a 12-year Replacement Cycle*

Funding to replace two-way radios in Bozeman was provided for the 2005 biennium, and was designated as one time and is not included in the base. The funding in this adjustment would establish a 12-year replacement cycle in which two-way radio equipment in two to three area sites would be replaced each biennium. Typically, two-way radio manufacturers stop providing support and parts 10 to 12 years after the radios are manufactured. The existing equipment will be 18 to 20 years old at the time of replacement under this adjustment.

DP 305 - Rest Areas, Vaults and New Utilities - An increase of \$723,222 state special revenue for the biennium is requested to fund: 1) increased contract costs for rest area maintenance; 2) operations and maintenance costs for two new rest areas that will open in the 2007 biennium; 3) utility costs at a new maintenance facility constructed in Melstone to replace an abandoned section house in Ingomar; and 4) the installation and maintenance of vault toilets at five pullout areas used by truck drivers and other large vehicles.

**LFD  
COMMENT***Factors for Contract Cost Increases*

The department has seen significant increases in rest area maintenance contract costs as the contracts for rest area janitorial and maintenance have been rebid. Contract increases of more than 25 percent are common. Previous concerns with the quality of rest area services have caused the department to tighten the contract specifications and standards. These more stringent standards, along with the remote locations for many of the rest areas, are factors for the cost increases. The most recently published survey of highway user satisfaction found that rest area maintenance has slightly improved from 2000 to 2002.

DP 306 - RWIS System Maintenance and Expansion - An increase of \$460,150 state special revenue for the biennium is requested to: 1) establish a regular replacement program for Roadway Weather Information System (RWIS) hardware and software; and 2) expand and enhance the system by adding more web cameras to the system.

**LFD  
COMMENT***Roadway Weather Information System Explained*

The Roadway Weather Information System consists of a variety of weather monitoring equipment, including web cameras and sensors, located throughout Montana on state maintained highways. The system is used by a number of functions within the department. For example, the highway maintenance crews use information provided by these remotely located instruments to monitor adverse weather and road conditions. Additionally, the department traveler information processes use data generated from RWIS. The National Weather Service uses RWIS system data as input into their weather forecast models. The traveling public uses the system to view road and weather conditions for travel planning. The current system consists of 60 remote units, of which 17 have cameras viewable from the Internet by the traveling public, weather service, and the department.

**LFD  
ISSUE***RWIS One-Time Funding*

The request for RWIS system maintenance and expansion includes funding for costs, some of which are ongoing and some of which are not. According to the department, the replacement costs would establish a four-year replacement cycle for most field equipment of the system and a two-year cycle for server equipment. A portion of the request is for enhancements to the system and would not need to be replaced for four years. Furthermore, there are no plans for regularly enhancing the system other than for enhancements that are identified as budgets are developed. As such, ongoing funding is not needed to support routine enhancements of the system. Ongoing funding is only needed for a regular component replacement cycle for existing and proposed enhancement equipment.

According to a breakdown provided by the department, \$197,400 of the funding in this request would support the regular replacement cycle and \$262,750 would fund enhancements that would not be regularly ongoing. The legislature may wish to designate \$262,750 of this request as a one-time-only appropriation.

DP 308 - Equipment Rental - An increase of \$4,116,525 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation. A discussion of the equipment rental rates is contained in the proprietary discussion for the Equipment Program.

DP 309 - Biennial Appropriation Adjustments - A reduction of \$1,692,994 state special revenue for the biennium is requested to adjust the funding for the pavement preservation program to planned levels for the 2007 biennium. Base expenditures were higher than typical for annual pavement preservation activities. This adjustment offsets the effects of the high base year expenditures.

DP 310 - Pavement Markings - Increases of \$230,696 state special revenue and \$808,942 federal special revenue for the biennium are requested to provide funding for pavement markings at the planned level of activity for the 2007 biennium. The department contracts for pavement markings and the base year expenditures were lower than planned because of payment delays associated with a number of contract disputes.

DP 311 - Overtime and Differential Pay - An increase of \$4,758,150 state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increases is \$620,626 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 313 - 511 Travelers information Program - An increase of \$160,000 state special revenue for the biennium is requested to fund the 511 Travelers Information Program with state funding to replace federal funding that will not be available after June 2005

**LFD  
COMMENT***511 Traveler Information Program*

The 511 traveler information program provides telephone access to 24-hour real time information for travelers, including:

- Winter driving conditions
- Weather forecast information
- Construction information
- Road closures and major delays
- Weight and speed limit restrictions

**LFD  
COMMENT  
CONT.**

The 511 traveler information program began operating January 2003 and was funded partially with federal earmarked funds for intelligent transportation system. The federal funding will not be available after June 2005. The request is to provide state funds to backfill the federal funds.

**LFD  
ISSUE***Funding Shift*

Funding for the implementation and the first three years of the 511 traveler information program was from a federal earmark of intelligent transportation system (ITS) funding. At the time the funding was accepted by the department, the department understood that the federal funding for the system would stop in July 2005. It is not clear if the legislature was aware that the federal funding would stop after FY 2005 and funding would become fully the responsibility of the state. The request is for full state assumption. The adjustment would fund the payments to the system vendor for operating the traveler information system, which are not reimbursable with federal highway construction funds.

DP 314 - Noxious Weed Control - An increase of \$610,672 state special revenue for the biennium is requested to increase the funding for the control of noxious weeds on state highway right of ways. The department contracts with the county weed control boards to perform noxious weed control. The increase would be used to offset cost increases for chemicals, equipment, and manpower.

**LFD  
COMMENT***Weed Control Growth*

The adjustment would represent a 35 percent increase on base year expenditures for weed control of about \$964,000.

DP 315 - City Maintenance Contracts - An increase of \$115,834 state special revenue for the biennium is requested to fund increases associated with maintenance contracts with the cities of Missoula and Billings.

**LFD  
COMMENT***Maintenance Contracts*

The department has maintenance service contracts with the cities of Missoula and Billings to maintain state highways running through the cities that are the financial responsibility of the state. The contracted duties are similar to activities performed by the department, such as snow removal and ice control, roadway patching and repairs, storm drain maintenance and repairs, landscape maintenance, street cleaning, review and initiation of encroachment permits, interchange and park green area maintenance, weed and tree control, and cross walk and roadway painting.

DP 316 - Land Acquisition - An increase of \$86,000 state special revenue for the biennium is requested to purchase land for stockpile sites and facility sites associated with the Long Range Building Program.



**LFD  
COMMENT***Long-Range Building Program Facilities History*

As part of the Long-Range Building Program (LRBP), the legislature has typically funded capital construction projects that would necessitate land purchase. For example, the 1999 Legislature approved \$2.1 million to construct equipment storage buildings and replace the Helena headquarters building, and the 2001 Legislature approved \$2.3 million to construct equipment storage buildings across the state. The land purchases in this request would support similar projects included in the LRBP for approval by the 2005 Legislature. The department has typically purchased the land for these structures prior to approval of the capital funding.

**New Proposals**

New Proposals		Fiscal 2006				Fiscal 2007					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 307 - City Rest Area 03	0.00	0	75,000	0	75,000	0.00	0	75,000	0	75,000	
Total	0.00	\$0	\$75,000	\$0	\$75,000	0.00	\$0	\$75,000	\$0	\$75,000	

DP 307 - City Rest Area - An increase of \$150,000 state special revenue for the biennium is requested to fund caretaker and janitorial services as well as basic maintenance and repairs at 10 city park rest areas in which city operating obligations have expired.

**LFD  
COMMENT***City Park Rest Area Program*

The City Park Rest Area Program began following a 1989 investigation to address the need for rest areas on state primary and non-interstate national highways. Legislative appropriations were approved in FY 1991 and FY 1995 to convert city parks into city park rest areas readily accessible to the traveling public. Communities receiving state funding to improve city parks to rest areas agreed to operate and maintain the facilities from April to November for at least 10 years. Under the program, city park rest areas have been established in 13 communities. Of these 13 rest areas, community obligations have been fulfilled for 6 and obligations for 4 others will expire during the 2007 biennium. The local communities have not continued to operate and maintain the rest areas after their 10-year commitments have expired. The funding in the request would address maintenance backlogs and fund operations at six inactive facilities in Malta, Fort Belknap, Harlowton, Twin Bridges, Plentywood, and Chester. The funding would also operate rest areas in Roundup, Big Sandy, Whitefish, and Ennis after the community obligations expire in FY 2007. Community obligations will expire in FY 2008 for rest areas in Cut Bank, Havre, and Lewistown and the department would likely request additional funding from the 2007 Legislature for their operations.

## Proprietary Rates

### Proprietary Program Description

The State Motor Pool operates and maintains a fleet of vehicles available to all state offices and employees who conduct official state business. The State Motor Pool has two basic components: 1) the daily rental fleet; and 2) the out-stationed lease fleet. The daily rental program operates out of the Helena headquarters facility and provides vehicles for short-term use. The leasing program provides vehicles for extended assignment (biennial lease) to agencies statewide.

#### *Other Options to Use of the Program*

Use of the program is optional to agencies when personnel are required to travel by vehicle for official state business, but is encouraged in the Montana Operations Manual. Other options for state employees are: 1) other state-owned vehicles not part of the State Motor Pool fleet; 2) personal vehicles, with authorization provided by the agency director; or 3) vehicles from a private rental agency contract. State law encourages use of the program through a reimbursement rate for use of personal vehicles for state business travel that is set at 52 percent of the low mileage rate allowed by the United States Internal Revenue Services unless a State Motor Pool vehicle is not available.

#### *Historical Program Growth*

The program has increased from 318 units in FY 1994 to 832 in FY 2004. During that time, annual mileage increased from 4.1 million to 11.0 million miles. This growth in the number of vehicles and miles traveled is largely due to the practice of the Office of Budget and Program Planning stipulating that agencies lease new vehicles from the State Motor Pool instead of purchasing vehicles directly.

## Proprietary Revenues and Expenses

### *Revenues*

Revenue is generated through vehicle rental fees and from the gain on sale of surplus assets. Vehicle rental fees provide roughly 99 percent of the revenue for the program in FY 2004. Rental fee revenues are functionally tied to the travel requirements of various user agencies. The program also receives revenue from accident damages reimbursed by private individuals or insurance companies. These damage reimbursement revenues generally cover only the expenses to repair the damage.

Vehicle rental fees come from two service classes: 1) short-term rentals; and 2) long-term leases. Short-term rentals serve agency personnel generally located in the Helena area who need to travel to other state locations and return to Helena at the culmination of the travel event. Long-term leases serve agencies with personnel housed in offices in Helena and in other parts of the state and who frequently travel as a normal part of their work assignments. Long-term vehicles are typically housed and managed out of agency office locations and only returned to the State Motor Pool facilities for maintenance or reassignment.

In FY 2004, the State Motor Pool had revenues of roughly \$3.2 million from vehicle rental fees. Vehicle rent payments were received from the following funding sources in the percentages and approximate amounts listed:

- General fund (53.6 percent) \$1,714,000
- State special revenue (25.4 percent) \$812,000
- Federal special revenue (19.7 percent) \$630,000
- All other funds (1.3 percent) \$44,000

### *Expenses*

The State Motor Pool is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet. The program pays all costs directly associated with vehicle operations including liability insurance. The program is reimbursed for costs directly attributable to operator abuse and accident costs caused by an outside party. User agencies can pay for optional full coverage insurance costs associated with employee use of State Motor Pool vehicles.

The majority of the costs of the program are indirect costs, as they cannot be traced directly to specific miles driven by State Motor Pool vehicles. Indirect costs are supported by the assigned rates allocated to the seven classes of vehicles. The State Motor Pool supports 6.00 FTE. Administrative overhead and service activities that cannot be tied directly to a

vehicle receive an allocation of 75 percent of the personal service costs with the remaining 25 percent allocated to specific units as specific maintenance and repair activities are tracked. Direct costs include gasoline, oil, and tires and are supported by the usage rates for all seven classes of vehicles. Expenses for gasoline, oil, and tires accounted for 32.0 percent of FY 2004 total expenses. The allocations of indirect costs and direct costs use the same methodology for all rates to which they apply. The program has included a 3 percent increase in projections for indirect costs and a 5 percent increase in projections for direct costs. These growth factors are based on industry trends in which vehicle purchase costs are expected to increase, as are costs for repairs and maintenance. Rising oil prices are expected to keep oil, grease, and fuel costs higher than the base year expenditures.

The program uses loans from the Board of Investments (BOI) to fund vehicle purchases. Interest rates on BOI loans are adjusted annually and vary from one purchase cycle to the next. The outstanding loan balance and interest payments have a significant impact on motor pool assigned time rental rates.

#### *Working Capital Discussion*

Rental rates are set to recover sufficient revenue to meet loan principal and interest payments and operating costs, and to allow maintaining no more than a 60-day working capital balance. If the program does not generate sufficient revenue to make interest and principal payments, a short-term loan would be requested or assets would be sold to satisfy the loan obligations. The program billing and payment cycles support the accumulation of a 60-day working capital balance. User agencies are billed monthly and payments are requested to pay for services by the end of the next month. This allows the program to make monthly expense payments and accumulate adequate working capital to pay quarterly interest payments on the BOI loans and the annual payment on loan principal due June 30.

#### **LFD COMMENT**

##### *Motor Pool Rebate*

According to the State Motor Pool, the FY 2004 rates generated revenue in excess of expenses and the working capital balance grew too high. Because of the high balance, the program rebated a portion of its revenues back to the users. Since the rates are developed using the Motor Pool Management System to track costs to operate motor pool fleet vehicles, the lower costs have been factored into the rates for the 2007 biennium. In FY 2004, the State Motor Pool rebated just over \$462,000 back to users.

#### *Fund Balance and Reserve Fund Balance*

The program rents vehicles for use by other state government entities. The number of vehicles in the program has grown to 832 vehicles, nearly 2.6 times the 1994 fleet size. Because of this growth, the program has borrowed funds to purchase new vehicles. As such, the balance sheet for the program at the end of FY 2004 has \$14.8 million in equipment assets with vehicles comprising nearly 100 percent of total assets. The equipment assets are depreciated to nearly 41.1 percent of their cost, for a book value of \$8.7 million financed by \$4.8 million of long-term debt. The resultant fund equity is \$2.7 million or 27.0 percent of total assets. An adjustment to decrease the fund equity balance was included in the rates for the 2005 biennium. The adjustment was for net income gains from 1998 to 2002. The program decreased fund equity by approximately \$460,000 in FY 2004 and expects the fund equity to decrease by an additional \$450,000 by the end of FY 2005. These planned losses were not included in the 2007 biennium rental rates.

The figure for fund 06506 shows the financial data for the fund from FY 2002 through FY 2007.

2007 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency #	Agency Name	Program Name		
6506	Motor Pool Internal Service	5401	Department of Transportation	State Motor Pool		
	Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>						
Fee revenue						
Intra-State Service	-	-	-	-	3,727,412	3,849,057
Net Fee Revenue	3,642,836	4,098,669	3,191,787	4,557,277	3,727,412	3,849,057
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	3	-	11,817	-	-	-
Total Operating Revenue	3,642,839	4,098,669	3,203,604	4,557,277	3,727,412	3,849,057
<b>Operating Expenses:</b>						
Personal Services	250,000	259,760	271,472	268,123	274,567	274,950
Other Operating Expenses	2,954,685	2,956,664	3,000,188	4,727,494	3,351,789	3,519,083
Total Operating Expenses	3,204,685	3,216,424	3,271,660	4,995,617	3,626,356	3,794,033
Operating Income (Loss)	438,154	882,245	(68,056)	(438,340)	101,056	55,024
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	(24,541)	(143,122)	(391,872)	-	(150,000)	(150,000)
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	(24,541)	(143,122)	(391,872)	-	(150,000)	(150,000)
Income (Loss) Before Operating Transfers	413,613	739,123	(459,928)	(438,340)	(48,944)	(94,976)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	-	-	-	-	-	-
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	413,613	739,123	(459,928)	(438,340)	(48,944)	(94,976)
Total Net Assets- July 1 - As Restated	2,118,973	2,532,586	3,292,432	2,651,540	3,242,777	1,385,685
Prior Period Adjustments	-	20,723	(180,964)	-	-	-
Cumulative effect of account change	-	-	-	-	-	-
Total Net Assets - July 1 - As Restated	2,118,973	2,553,309	3,111,468	2,651,540	3,242,777	1,385,685
Net Assets- June 30	2,532,586	3,292,432	2,651,540	2,213,200	3,193,833	1,290,709
60 days of expenses (Total Operating Expenses divided by 6)	534,114	536,071	545,277	832,603	604,393	632,339

## Proprietary Rate Explanation

### Rate Structure

The State Motor Pool rental rates are based on a two-tiered structure. Users pay a usage rate and an assigned rate. The usage rate is charged for actual miles driven and allows the program to recover costs directly related to the operation of the vehicle, such as repair labor and parts, fuel, lubricants, tires, and tubes. The assigned rate allows the program to cover fixed costs associated with state ownership, such as insurance, principal and interest payments on BOI loans, depreciation, and other indirect expenses. The two-tiered rate structure first used in the 2003 biennium provides: 1) a stable revenue to pay loan payments and other cost obligations; and 2) equity among all vehicles classes so that one vehicle class does not subsidize another vehicle class.

The motor pool management system provides cost information related to direct and indirect costs for each vehicle class. These costs were used to project final costs for the 2005 biennium and budgeted costs for the 2007 biennium. For the 2007 biennium, projected costs were adjusted for: 1) anticipated additional lease vehicle purchases; and 2) increases to direct and indirect costs.

The rates using the two-tiered structure are applied as follows for the two components of the State Motor Pool:

Daily rental:

$$\text{Cost (per occurrence)} = (\text{HR} \times \text{AR}) + (\text{AM} \times \text{MR}),$$

Out-stationed lease:

$$\text{Cost (annual)} = (2920 \times \text{AR}) + (\text{AM} \times \text{MR}),$$

where:

HR = 8 hours for each day the vehicle is checked out from the motor pool, including weekends

AR = per hour assigned rate

AM = actual miles traveled

MR = per mile operated rate

#### *Rates Requested for the 2007 Biennium*

For the 2007 biennium, the State Motor Pool requests the rates shown Figure 7A for the State Motor Pool.

Figure 7A State Motor Pool Base and 2007 Biennium Requested Rates							
Class	Description	Fiscal Year 2004		Fiscal Year 2006		Fiscal Year 2007	
		Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)	Assigned (per hr)	Usage (per mile)
2	Small Utilities	\$2.040	\$0.098	\$1.377	\$0.069	\$1.408	\$0.069
4	Large Utilities	2.251	0.099	1.856	0.081	1.955	0.081
6	Mid-Size Compact	1.370	0.067	1.196	0.048	1.186	0.048
7	Small Pickups	1.123	0.110	1.153	0.073	1.106	0.073
11	Large Pickups	1.284	0.123	1.521	0.095	1.653	0.095
12	Van, All Types	1.372	0.134	1.399	0.084	1.432	0.084
Percent Changes from Base Rate							
2	Small Utilities			-32.5%	-29.6%	-31.0%	-29.6%
4	Large Utilities			-17.5%	-18.2%	-13.1%	-18.2%
6	Mid-Size Compact			-12.7%	-28.4%	-13.4%	-28.4%
7	Small Pickups			2.7%	-33.6%	-1.5%	-33.6%
11	Large Pickups			18.5%	-22.8%	28.7%	-22.8%
12	Van, All Types			2.0%	-37.3%	4.4%	-37.3%

#### *Explanation of Rate Change from the Base Rates of FY 2004*

In aggregate, the rates for all vehicle classes would decrease in FY 2006 by 13.1 percent from the base rate and in FY 2007 by 12.65 percent from the base rate. The bottom half of Figure 7A shows the percentage change for each rate requested for the 2007 biennium as compared to the FY 2004 rates. All usage rates requested for the 2007 biennium would be lower than the FY 2004 rates. However, the assigned time rates requested for classes 7, 11, and 12 vehicles would increase in FY 2006 and the assigned time rates requested for classes 11 and 12 for FY 2007 would increase over the FY 2004 rates.

#### Assigned Time Rate

The primary factor for the increases for some classes in the assigned time rates and decreases in others is the demographics by class of the vehicles to be purchased for expanding the lease program and for replacing existing vehicles. Vehicle class demographics impact the assigned time rates in three ways:

- Number of vehicles and available hours of operation impact how fixed costs are allocated on an hourly basis
- Vehicle age profiles for each class of vehicles impact the component of the assigned time rate for depreciation costs depending on the combined depreciation schedules for vehicles in each class
- Vehicle purchases in a class impact loan repayment costs used to finance vehicle purchases

### Usage Rates

The Motor Pool Management System (MPMS) is used to track actual direct costs to operate motor pool fleet vehicles. Estimates from the MPMS of the average costs per mile of operation for each class of vehicle are used to develop the usage rates for the motor pool. Based on actual costs to operate and maintain vehicles, the MPMS has estimated lower usage costs for the 2007 biennium compared to those for FY 2004. The lower operating costs are the result of the following factors:

- Motor pool maintenance efficiencies
- New vehicle warranties
- Vehicle age profiles

The motor pool fleet has doubled in size since FY 1999 while the program has maintained the same staffing level. The efficiencies gained by the same staff servicing the additional vehicles has reduced the per-vehicle costs and applied downward pressure on the usage rates.

As the motor pool has replaced older vehicles in the fleet with new vehicles the maintenance costs have been reduced because warranties cover many of the costs that would have previously been funded by the program. Also, maintenance activities on newer vehicles tend to be lower than for older vehicles. The lower maintenance costs have been spread across the fleet to reduce the per-vehicle costs and therefore the mileage rates.

### **Significant Present Law Adjustments**

The 2007 biennium rates for the State Motor Pool are based on a present law budget with projected operating expenses 10.8 percent higher than the base in FY 2006 and 16.0 percent higher than the base in FY 2007. The present law adjustments impacting the operating costs are for:

- Vehicle acquisition
- Increase in fuel for new vehicles
- Increase in fixed costs paid to other state agencies

### *Vehicle Acquisition*

The program would replace 151 existing vehicles in FY 2006 and 99 vehicles in FY 2007. Vehicles that would be replaced are those that would reach the end of their economic lives at the time of replacement. In addition to replacing existing vehicles in the motor pool fleet, the executive proposes expanding the number of vehicles in the lease program as an alternative to agencies purchasing and managing their own vehicles. The executive recommends increasing the out-stationed vehicle fleet by 44 vehicles in FY 2006 and by 24 vehicles in FY 2007 to satisfy statewide vehicle needs for long-term leases in agencies. Over all, 195 vehicles would be purchased in FY 2006 and 123 vehicles would be purchased in FY 2007. The adjustment represents a reduction in both the number of vehicles purchased and expense for vehicles as compared to the base year. The funding to purchase the vehicles comes from Board of Investments loans.

Purchasing fewer vehicles, as compared to the base, lowers the assigned time rate due to lower interest costs in the rates for the 2007 biennium compared to the base rate. Also, since the outstation lease fleet is increased by the vehicle acquisition adjustment, the component of the assigned time rate for interest is spread over more vehicle hours and the hourly rate goes down.

#### **LFD COMMENT**

#### *2005 Biennium Purchases*

The rates for the 2005 biennium were developed to purchase 273 vehicles in FY 2004 and 194 vehicles in 2005.

*Increase in Fuel for New Vehicles*

The operating costs increase by \$176,514 for the biennium or 5.0 percent to fund the purchase of gasoline for additional leased vehicles and to offset rising costs to purchase gasoline. After the adjustment, gasoline would account for about 24.4 percent of operating costs for the biennium. Direct costs for operating motor pool vehicles are tracked by the Motor Pool Management System (MPMS) and aggregated for each class of vehicle. After the adjustment for fuel, the MPMS uses the estimate for the number of miles the fleet is expected to travel each year. Based on the adjusted direct costs and mileages, the per mile rate for each year of the 2007 biennium decrease from the base rates for all classes of vehicle.

*Increase in Fixed Costs Paid to Other State Agencies*

The insurance premium paid by the State Motor Pool to the Risk Management and Tort Defense Division of the Department of Administration would increase by an average annual rate of 61.2 percent or \$88,257 on a base of \$144,186. Insurance costs, after the adjustment, would account for 6.3 percent of the operating costs for the program. Insurance costs are a fixed cost for the fleet and are recovered through the assigned time rate. The impact on the assigned time rates depends on the change in vehicle counts for each class of vehicle. When the out-station lease program growth increases the vehicle count for a vehicle class, the higher fixed costs are spread over more vehicles, as is the case for classes 2, 4, and 6 for both FY 2006 and FY 2007 and for class 7 for FY 2007. When the out-station lease program vehicle count for the class does not increase, the higher fixed costs result in higher assigned time rates, as is the case for classes 11 and 12 for both FY 2006 and FY 2007 and for class 7 for FY 2006.

## Proprietary Rates

### Proprietary Program Description

The Equipment Program is responsible for the acquisition, disposal, repair, and maintenance of a fleet of approximately 4,600 individual units. The fleet is comprised of light duty vehicles, single and tandem axle dump trucks, specialized snow removal units, roadway maintenance units, and other specialized equipment that serve functions of the department. Other programs of the Department of Transportation are the exclusive users of the fleet. Costs for the program are financed through rental fees charged to user programs.

The program has increased the fleet size over the last several biennia due to: 1) increased federal-aid highway construction funding; and 2) the assumption of secondary roads by the department. At fiscal year end 1997, the program had 4041 units operated for more than 20.1 million miles per year. At the end of FY 2004, the fleet had grown to 4571 units operated for nearly 23.7 million miles per year, but has remained relatively stable since FY 2001.

### Proprietary Revenues and Expenses

#### *Revenue*

Revenue is generated through the vehicle and equipment rental fees and from the gain on sale of surplus assets. Rental fees provide the majority of the revenue for the program. Revenues for the fleet are functionally tied to the severity of the winters, construction program workload, and travel requirements of the various programs using the equipment. As such, annual mileage and hours of usage can vary significantly. The program anticipates an increase in miles of travel and hour of usage due to the factors listed above for increased fleet size.

#### *Expenses*

The program is responsible for expenses associated with the acquisition, repair, maintenance, and routine operating costs for the fleet, including funding for 122.00 FTE. Approximately 40.0 percent of staff costs are allocated to administrative overhead and service activities that cannot be functionally tied directly to a piece of equipment. The remaining 60.0 percent of staff costs are allocated to specific units according to maintenance and repair activity. The program pays all costs directly associated with vehicle and equipment operations, including liability insurance and fuel. The Equipment Program is reimbursed for accident costs caused by an outside party and is reimbursed for any warranty work completed by department personnel.

Indirect costs, costs that cannot be traced directly to specific usage of the vehicles and equipment, are supported by the assigned rates and are allocated to each of the equipment fleet class and subclass. Direct costs, costs that can be traced directly to a particular unit use, include fuel, oil, and tires and are supported by usage rates. Indirect costs consist mainly of overhead costs and are allocated equally to all units of the fleet. Direct costs are tracked by the equipment management system and are allocated to the particular vehicle class for which they apply.

#### *Working Capital Discussion*

Equipment rental rates are set to recover sufficient revenue to purchase assets, cover normal operating expenses, and maintain no more than a 60-day working capital balance. Revenue is generated through rental rates, gain on sale of surplus assets, and damage settlements. The primary source of revenue is from user rental fees charged for the use and possession of vehicles and equipment. Rental fees are based on a dual rate structure for actual miles driven (usage rate) and a possession rate (assigned rate). Actual miles of travel and hours of usage are reported biweekly and billings are generated on the same schedule as payrolls. Approximately \$700,000 in rental revenue is generated every two weeks. Rental revenue varies with the season, weather conditions, and workloads. Auction revenue varies depending on the number and types of units being sold. The program also receives incidental revenues for accident damages that are reimbursed by private individuals or insurance companies. The amount generally covers the expenditures to repair the damage. If the program does not generate sufficient revenue to meet these obligations, the program would either liquidate assets or receive a loan.

#### *Fund Equity and Reserved Fund Balance*

The fund equity balance shows an increase due primarily to the increased fleet size that resulted when the department assumed maintenance responsibility for paved secondary roads. Revenues are anticipated to equal operation expenses and the working cash is projected to be less than the 60 days maximum allowable by the end of each fiscal year. In each fiscal year since 1999, federal money has been available to purchase equipment. The equipment is then donated to the



Equipment Program and the donated equipment contributes to the increase in the fund equity balance. With this federally funded equipment, the Equipment Program is obligated to maintain the equipment and will replace the units when their life cycles and costs dictate replacement.

2007 Biennium Report on Internal Service and Enterprise Funds								
Fund 6508	Fund Name Highway Equipment	Agency # 5401	Agency Name Department of Transportation	Program Name Equipment Program				
			Actual FY02	Actual FY03	Actual FY04	Budgeted FY05	Budgeted FY06	Budgeted FY07
<b>Operating Revenues:</b>								
Fee revenue								
Miscellaneous Cost Recovery			-	-	-	-		
Intra-State Service			-	-	-	-	20,930,458	20,924,375
Merchandise Sold			-	-	-	-		
Net Fee Revenue			18,693,334	18,830,586	18,889,965	20,038,731	20,930,458	20,924,375
Investment Earnings			-	-	-	-	-	-
Securities Lending Income			-	-	-	-	-	-
Premiums			-	-	-	-	-	-
Other Operating Revenues			211	7,822	13,120	-	12,000	12,000
Total Operating Revenue			18,693,545	18,838,408	18,903,085	20,038,731	20,942,458	20,936,375
<b>Operating Expenses:</b>								
Personal Services			4,252,027	5,603,913	5,844,684	5,914,567	6,006,666	6,017,400
Other Operating Expenses			12,101,481	13,376,558	14,337,796	14,172,174	14,901,990	15,101,990
Total Operating Expenses			16,353,508	18,980,471	20,182,480	20,086,741	20,908,656	21,119,390
Operating Income (Loss)			2,340,037	(142,063)	(1,279,395)	(48,010)	33,802	(183,015)
<b>Nonoperating Revenues (Expenses):</b>								
Gain (Loss) Sale of Fixed Assets			393,925	(331,361)	(9,937)	-	-	-
Federal Indirect Cost Recoveries			-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)			-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)			393,925	(331,361)	(9,937)	-	-	-
Income (Loss) Before Operating Transfers			2,733,962	(473,424)	(1,289,332)	(48,010)	33,802	(183,015)
Contributed Capital			-	-	-	-	-	-
Operating Transfers In (Note 13)			612,216	-	-	-	-	-
Operating Transfers Out (Note 13)			-	-	-	-	-	-
Change in net assets			3,346,178	(473,424)	(1,289,332)	(48,010)	33,802	(183,015)
Total Net Assets- July 1 - As Restated			35,666,850	54,862,557	56,903,198	56,818,484	56,770,474	56,804,276
Prior Period Adjustments			1,561,004	2,514,065	1,204,618	-	-	-
Cumulative effect of account change			14,288,525	-	-	-	-	-
Total Net Assets - July 1 - As Restated			51,516,379	57,376,622	58,107,816	56,818,484	56,770,474	56,804,276
Net Assets- June 30			54,862,557	56,903,198	56,818,484	56,770,474	56,804,276	56,621,261
60 days of expenses (Total Operating Expenses divided by 6)			2,725,585	3,163,412	3,363,747	3,347,790	3,484,776	3,519,898

### Cash Flow Discussion

The Equipment Program serves only other programs of the Department of Transportation. The cash flow is dependent on rental revenue and auction proceeds. If Montana experiences a harsh winter season, usage is higher and corresponding rental revenues are higher. The Equipment Program cash balance is generally less than the allowable 60-day maximum. With less than 60-day cash, the program occasionally does not have sufficient cash to cover obligations due at the beginning of each FY year. One significant expense that is paid at the beginning of the year is liability insurance paid to the Department of Administration Risk Management and Tort Claims Division for vehicle insurance. When needed for cash flow purposes, the program negotiates, at no interest, an inter-entity loan from the highway state special revenue account. The loan is repaid when rental revenues have generated enough cash to pay ongoing cash obligations.

The figure for fund 06508 shows the financial information for the fund from FY 2002 through FY 2007.

### Proprietary Rate Explanation

The rental rates are based on a two-tiered rate structure. Equipment users pay a usage rate and an assigned rate. The usage rate is a per mile or hourly rate that is applied to a vehicle or piece of equipment for the actual miles or hours used and is designed to recover direct costs such as labor, parts, fuel, lubricants, tires, and tubes. The assigned rate is designed

to recover fixed costs such as insurance, depreciation, and indirect costs. Rental rates are adjusted each year based on the previous year operating experience. The rates are based on the actual operational costs for each sub-class for the base rental period. These costs are adjusted to reflect changes in operations or operating costs from the base. The program's financial position also is considered in the rate development process in order to maintain a cash balance that will not exceed the 60-day maximum cash balance requirement.

The program is requesting that the legislature not approve specific rental rates for each piece of equipment or equipment class, but a program operating parameter that limits the program from charging rental rates that collect more than 60 days of working capital. Only programs internal to the Department of Transportation, most of which are funded primarily through legislative appropriations, are impacted by rate changes of the Equipment Program. Programs of the department would see average annual increases totaling about \$3.3 million on a base of \$18.8 million for a growth of 17.7 percent.

### **Significant Present Law Adjustments**

The 2007 biennium rates for the Equipment Program are based on a present law budget with operating costs that are 4.1 percent higher for the biennium than the base. The present law adjustments impacting the operating costs are for:

- Personal services
- Vehicle and equipment replacement
- Adjustment for fuel cost increases
- Adjustment for fixed costs

#### *Personal Services*

Personal services would increase by about \$212,000 or 3.6 percent for each year, driven primarily by statewide impacts of health insurance contribution increases included in the pay plan bill for the 2005 biennium. Personal services costs comprise about 40 percent of operating costs and are allocated to both the assigned time and usage rates.

#### *Vehicle and Equipment Replacement*

The executive recommends replacing units in the existing fleet as they reach the end of their economic lives. Equipment replacement costs totaling \$6.4 million in each year of the biennium are considered in the rates for the 2007 biennium. The 2007 biennium equipment purchases are \$68,404 or 1.0 percent higher than purchases made in FY 2004. Vehicle and equipment replacement costs are allocated to the assigned time rates and would have minimal impact.

#### *Adjustment of Fuel Cost Increase*

The executive recommends increasing gasoline and diesel by about \$183,000 or 5.0 percent per year on a base of about \$3.7 million to adjust for rising gasoline costs. Fuel costs represent about 26.0 percent of all program costs after deducting equipment costs and are allocated to the usage rates and would increase usage rates.

#### *Adjustment for Fixed Costs*

The executive recommends increasing funding for property and casualty insurance premium payments made to the Risk Management and Tort Defense Division of the Department of Administration by an average of about \$200,000 or 51.5 percent per year on a base of about \$389,000. The increase is based on risk factors and historical claims experience of the program. An increase is also recommended to fund higher natural gas costs. An average funding increase of about \$10,500 or 63.8 percent on a base of about \$16,400 is included for natural gas. Fixed costs are allocated to the assigned time rates and are attributable to a portion of the rate increase.

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	111.50	0.00	8.63	120.13	0.00	11.50	123.00	123.00
Personal Services	4,248,192	225,817	604,418	5,078,427	225,048	806,312	5,279,552	10,357,979
Operating Expenses	805,983	45,398	949,828	1,801,209	43,082	1,221,444	2,070,509	3,871,718
Equipment	0	0	103,254	103,254	0	67,244	67,244	170,498
<b>Total Costs</b>	<b>\$5,054,175</b>	<b>\$271,215</b>	<b>\$1,657,500</b>	<b>\$6,982,890</b>	<b>\$268,130</b>	<b>\$2,095,000</b>	<b>\$7,417,305</b>	<b>\$14,400,195</b>
State/Other Special	5,054,175	271,215	607,500	5,932,890	268,130	695,000	6,017,305	11,950,195
Federal Special	0	0	1,050,000	1,050,000	0	1,400,000	1,400,000	2,450,000
<b>Total Funds</b>	<b>\$5,054,175</b>	<b>\$271,215</b>	<b>\$1,657,500</b>	<b>\$6,982,890</b>	<b>\$268,130</b>	<b>\$2,095,000</b>	<b>\$7,417,305</b>	<b>\$14,400,195</b>

**Program Description**

The Motor Carrier Services Division enforces state and federal commercial motor carrier laws including laws on vehicle size and weight, insurance, licensing, fuel, and vehicle and driver safety. The Licensing and Permit Bureau registers interstate fleet vehicles, issues commercial vehicle licenses and oversize/overweight permits, and collects and distributes fees and taxes. The Enforcement Bureau operates a statewide weigh station and mobile enforcement program and assigns uniformed officers to inspect commercial vehicles for compliance with state and federal safety, registration, fuel, insurance, and size/weight laws.

**Program Highlights**

<b>Department of Transportation</b> <b>Motor Carrier Services Division</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$4.3 million for the biennium over the base (an average annual increase of 42 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Funding for base year levels of overtime and differential pay</li> <li>Increased funding for credit card fees</li> <li>New costs for operations and maintenance of a new joint port-of-entry on the Montana and Wyoming border</li> <li>Moving the Motor Carriers Safety Assistance Program (MCSAP) to the department from the Department of Justice</li> </ul> </li> <li>The addition of MCSAP would add 11.50 FTE by the end of the biennium</li> </ul>	

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table Motor Carrier Services D						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02422 Highways Special Revenue	\$ 5,054,175	100.0%	\$ 5,932,890	85.0%	\$ 6,017,305	81.1%
03407 Highway Trust - Sp Rev	-	-	1,050,000	15.0%	1,400,000	18.9%
Grand Total	<u>\$ 5,054,175</u>	<u>100.0%</u>	<u>\$ 6,982,890</u>	<u>100.0%</u>	<u>\$ 7,417,305</u>	<u>100.0%</u>

The Motor Carrier Services Division is fully funded by the highways state special revenue fund, which receives revenue from highway user fees such as motor fuel taxes and gross vehicle weight fees.

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				354,143					353,337
Vacancy Savings				(184,097)					(184,060)
Inflation/Deflation				1,527					1,807
Fixed Costs				(25)					(25)
<b>Total Statewide Present Law Adjustments</b>				<b>\$171,548</b>					<b>\$171,059</b>
DP 2202 - Overtime and Differential Pay									
0.00	0	55,771	0	55,771	0.00	0	55,771	0	55,771
DP 2203 - Equipment Rental									
0.00	0	18,896	0	18,896	0.00	0	16,300	0	16,300
DP 2204 - Credit Card Fees									
0.00	0	25,000	0	25,000	0.00	0	25,000	0	25,000
<b>Total Other Present Law Adjustments</b>									
<b>0.00</b>	<b>\$0</b>	<b>\$99,667</b>	<b>\$0</b>	<b>\$99,667</b>	<b>0.00</b>	<b>\$0</b>	<b>\$97,071</b>	<b>\$0</b>	<b>\$97,071</b>
Grand Total All Present Law Adjustments				\$271,215					\$268,130

**DP 2202 - Overtime and Differential Pay** - An increase of \$111,542 state special revenue for the biennium is requested to reestablish base year overtime and differential pay. Included in the increase is \$14,548 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

**DP 2203 - Equipment Rental** - An increase of \$35,196 state special revenue for the biennium is requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

**DP 2204 - Credit Card Fees** - An increase of \$50,000 state special revenue for the biennium is requested to fund credit card fees associated with increased use of automated transactions by the commercial motor carrier industry.

## New Proposals

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 2201 - MT/WY Dietz Joint Port of Entry										
22	0.00	0	345,000	0	345,000	0.00	0	345,000	0	345,000
DP 2205 - Transfer MCSAP from the Dept of Justice (Requires Legislation)										
22	8.63	0	262,500	1,050,000	1,312,500	11.50	0	350,000	1,400,000	1,750,000
Total	8.63	\$0	\$607,500	\$1,050,000	\$1,657,500	11.50	\$0	\$695,000	\$1,400,000	\$2,095,000

DP 2201 - MT/WY Dietz Joint Port of Entry - An increase of \$690,000 state special revenue for the biennium is requested to pay half of the maintenance expenses and contracted services for half of the salaries of up to 10 Wyoming state employees operating the new port of entry station operating at Dietz, Wyoming, on the Montana and Wyoming border. The Dietz facility is operated as a joint enforcement effort between the two states. Montana contracts with Wyoming to staff and operate the joint port-of-entry. The contract calls for Wyoming personnel to enforce Montana size and weight laws, issue Montana permits, and collect Montana gross vehicle weight fees.

**LFD  
COMMENT**

*Other Joint Ports-of-Entry* - Montana operates similar joint ports-of-entry with Idaho and Alberta, Canada under similar cost sharing agreements

DP 2205 - Transfer MCSAP from the Dept of Justice (Requires Legislation) - Increases of \$612,500 state special revenue and \$2,450,000 federal special revenue for the biennium are requested to transfer the Motor Carriers Safety Assistance Program (MCSAP) from the Department of Justice to the Department of Transportation. The funding would add 8.63 FTE in FY 2006 and 11.50 FTE in FY 2007. Moving MCSAP would be contingent upon passage and approval of legislation (LC 125). If LC 125 were approved, the transfer would be effective October 1, 2005. The movement would consolidate all commercial motor vehicle regulation functions in one organizational unit.

**LFD  
ISSUE**

*Transfer Increases Funding* - The adjustment in the Department of Transportation adds about \$3.1 million total funds for the biennium to transfer the MCSAP program to the department, but only \$2.2 million is reduced from the Department of Justice for the MCSAP program movement. The adjustment represents an increase of \$827,298 in total funds for the biennium over the amount removed from the Department of Justice. According to the executive, the increase would provide appropriation authority for the full amount available in federal MCSAP funds along with required matching funds from the highways state special revenue account. The legislature may want to ask the department to justify how the increased funding would increase the value of the program for the state over the amount of activity performed by the Department of Justice.

**LFD  
ISSUE**

*Contingency Language* - The executive has not recommended contingency language to make the funding for the decision package to move MCSAP to the department contingent upon passage and approval of LC 125. The legislature may wish to approve the following language if it concurs with the funding increase of DP 2205:

“IF LC 125 is not passed and approved, the appropriation for the Motor Carrier Services Division is decreased by \$262,500 of state special revenue money and \$1,050,000 federal special revenue money in fiscal year 2006 and by \$350,000 of state special revenue money and \$1,400,000 federal special revenue money in fiscal year 2007.”

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	10.00	0.00	0.00	10.00	0.00	0.00	10.00	10.00
Personal Services	452,378	25,135	0	477,513	23,935	0	476,313	953,826
Operating Expenses	398,010	535,952	2,437,750	3,371,712	(99,220)	155,750	454,540	3,826,252
Equipment	11,233	0	350,000	361,233	0	0	11,233	372,466
Grants	517,664	515,336	0	1,033,000	(517,664)	0	0	1,033,000
Transfers	18,221	0	0	18,221	0	0	18,221	36,442
Debt Service	0	0	0	0	0	26,000	26,000	26,000
<b>Total Costs</b>	<b>\$1,397,506</b>	<b>\$1,076,423</b>	<b>\$2,787,750</b>	<b>\$5,261,679</b>	<b>(\$592,949)</b>	<b>\$181,750</b>	<b>\$986,307</b>	<b>\$6,247,986</b>
State/Other Special	1,279,347	535,036	507,987	2,322,370	(516,847)	39,487	801,987	3,124,357
Federal Special	118,159	541,387	2,279,763	2,939,309	(76,102)	142,263	184,320	3,123,629
<b>Total Funds</b>	<b>\$1,397,506</b>	<b>\$1,076,423</b>	<b>\$2,787,750</b>	<b>\$5,261,679</b>	<b>(\$592,949)</b>	<b>\$181,750</b>	<b>\$986,307</b>	<b>\$6,247,986</b>

**Program Description**

The Montana Aeronautics Division: 1) facilitates the operation and infrastructure of airports and airways, both public and private, throughout Montana; 2) provides mechanisms for funding airport and aviation related projects throughout the state; 3) registers aircraft and pilots in accordance with Montana laws and regulations; and fosters, promotes, and supervises aviation and aviation safety through educational efforts and programs; and 4) coordinates and supervises aerial search and rescue operations. The division administers a loan and grant program to municipal governments to fund airport improvement projects. The Aeronautics Board approves all loan and grant requests and advises on matters pertaining to aeronautics.

The division serves as a liaison between the State of Montana and various other entities including the U.S. Department of Transportation, the Federal Aviation Administration (FAA), other federal and state entities, and commercial airlines in order to assure the retention and continuation of airline service to Montana's rural communities. The division is also responsible for operation of the air carrier airport at West Yellowstone and for 14 other state-owned airports.

**Program Highlights**

<b>Department of Transportation</b> <b>Aeronautics Program</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>• Total fund budget would increase through adjustments totaling \$3.5 million for the biennium over the base (an average annual increase of 124 percent) due primarily to:</li> <li>• Statewide present law adjustments</li> <li>• Establish funding for base year levels of overtime and differential pay</li> <li>• Purchase a replacement aircraft</li> <li>• Overhaul the engine and propeller for a division-owned aircraft</li> <li>• Make improvements at the West Yellowstone Airport</li> <li>• Reappropriate funding for a runway rehabilitation at the Lincoln Airport due to project delays in the 2005 biennium</li> <li>• The West Yellowstone Airport net asset balance grows to four times operating expenses to finance future anticipated projects</li> </ul>	

**Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table						
Aeronautics Program						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02287 Aeronautical Grant Account	\$ 427,744	30.6%	\$ 808,000	15.4%	\$ -	-
02827 Aeronautics Division	763,483	54.6%	1,289,370	24.5%	801,987	81.3%
02962 Airport Pvm. Preservation	88,120	6.3%	225,000	4.3%	-	-
03060 Aeronautics Division	118,159	8.5%	2,939,309	55.9%	184,320	18.7%
Grand Total	<u>\$ 1,397,506</u>	<u>100.0%</u>	<u>\$ 5,261,679</u>	<u>100.0%</u>	<u>\$ 986,307</u>	<u>100.0%</u>

The Aeronautics Program, excluding the operations of the West Yellowstone Airport, is funded by both state and federal special revenue funds. State special revenue funds are derived primarily from state aviation fuel taxes and aviation license fees. Federal special revenue comes from Federal Aviation Administration grants. Operations of the West Yellowstone Airport are funded from an enterprise type proprietary fund with revenues that include local property taxes, rentals and leases, concession sales receipts, and landing fees. Because the proprietary funds do not require an appropriation, they are not included in the above table.

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments									
-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				35,886					34,635
Vacancy Savings				(19,531)					(19,480)
Inflation/Deflation				891					730
Fixed Costs				735					724
<b>Total Statewide Present Law Adjustments</b>				<b>\$17,981</b>					<b>\$16,609</b>
DP 210 - Overtime Pay and Board Per Diem	0.00	0	9,280	9,280	0.00	0	9,280	0	9,280
DP 212 - Grants - Biennial	0.00	0	515,336	515,336	0.00	0	(517,664)	0	(517,664)
DP 213 - System Plan - Biennial	0.00	0	10,936	207,775	0.00	0	(6,564)	(124,725)	(131,289)
DP 214 - Program/Service Adjustments	0.00	0	25,674	4,441	0.00	0	25,674	4,441	30,115
DP 215 - West Yellowstone Airport - Biennial	0.00	0	0	285,000	0.00	0	0	0	0
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$561,226</b>	<b>\$497,216</b>	<b>0.00</b>	<b>\$0</b>	<b>(\$489,274)</b>	<b>(\$120,284)</b>	<b>(\$609,558)</b>
<b>Grand Total All Present Law Adjustments</b>				<b>\$1,076,423</b>					<b>(\$592,949)</b>

DP 210 - Overtime Pay and Board Per Diem - An increase of \$18,560 state special revenue for the biennium is requested to reestablish base year overtime, differential pay, and per diem for the Aeronautics Board. Included in the increase is \$986 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 212 - Grants - Biennial - A net reduction of \$2,328 state special revenue for the biennium is requested to align grants to communities and air-carrier airports with expected revenue from dedicated sources. Airport grants are used for airport safety and development projects, pavement preservation projects, and for purchasing courtesy cars at qualified airports where rental cars are not available. The executive requests a biennial appropriation for this adjustment and the associated base. With the base, total grant authority for these purposes would be \$1,033,000 state special revenue for the biennium. The adjustment would move all authority into fiscal 2006.

DP 213 - System Plan - Biennial - Increases of \$4,372 state special revenue and \$83,050 federal special revenue for the biennium are requested to provide grants for development of a pavement condition index, land use planning, base plan updates required by the Federal Aviation Administration every five years, and the airport information management system. The executive requests a biennial appropriation for this funding. With the base, total funding for system plan updates would be \$350,000 total funds for the biennium. The adjustment would move all authority into fiscal 2006.

DP 214 - Program/Service Adjustments - Increases of \$51,348 state special revenue and \$8,882 federal special revenue for the biennium are requested to fund: 1) maintenance on state owned airports; 2) fuel cost increases; 3) equipment upgrades; 4) education services; 5) search and rescue operations; 6) increased cost due to a new aircraft maintenance shop; and 7) aeronautical promotion brochures.

DP 215 - West Yellowstone Airport - Biennial - An increase of \$285,000 federal special revenue for the biennium is requested to fund a project to improve the taxiways and aprons at the West Yellowstone airport. The state match of \$15,000 for the project would be funded by the West Yellowstone Airport proprietary fund, which is not budgeted and does not appear in the HB 2 tables for the program. The project funded in this request is the second phase of a West Yellowstone Airport runway improvement project that began during the 2005 biennium with one-time funding approved by the legislature. The executive requests a biennial appropriation for this adjustment.

<b>LFD ISSUE</b>	<i>West Yellowstone Airport Capital Improvement Project – One-Time Authority</i>									
	This project is a major capital improvement project intended to restore the West Yellowstone Airport runway to federal standards and not for routine and regularly recurring maintenance. As such, the legislature may wish to designate this funding as one-time-only in addition to the biennial designation requested by the executive. One-time-only funding would exclude this funding from the base for the 2009 biennium when it would not be needed.									

## New Proposals

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 207 - Runway Rehab Lincoln Airport										
40	0.00	0	119,987	2,279,763	2,399,750	0.00	0	7,487	142,263	149,750
DP 208 - Aircraft Engine and Propeller - Biennial										
40	0.00	0	32,000	0	32,000	0.00	0	0	0	0
DP 209 - Aircraft purchase										
40	0.00	0	356,000	0	356,000	0.00	0	32,000	0	32,000
Total	0.00	\$0	\$507,987	\$2,279,763	\$2,787,750	0.00	\$0	\$39,487	\$142,263	\$181,750

DP 207 - Runway Rehab Lincoln Airport Biennial - Increases of \$127,474 state special revenue and \$2,549,500 federal special revenue for the biennium are requested to rehabilitate the runway pavement at the Lincoln Airport. The executive requests a biennial appropriation for this adjustment in the event further delays extend the project into fiscal 2007.



**LFD  
COMMENT***2005 Biennium Delays*

The 2003 legislature appropriated \$1.8 million for a project to rehabilitate the Lincoln Airport runway during the 2005 biennium. According to the department, the project was delayed because the Federal Aviation Administration mandated that the airport develop a master plan, airport layout plan, feasibility study, and environmental assessment before proceeding with the design and construction for the project. The department expects that construction on the project will begin in the summer of 2005 and be completed that fall.

**LFD  
ISSUE***Lincoln Airport Runway Rehabilitation Capital Improvement Project – One-Time Authority*

This project is a major capital improvement project intended to restore the Lincoln Airport runway to federal standards and not for routine and regularly recurring maintenance. As such, the legislature may wish to designate this funding as one-time-only in addition to the biennial designation requested by the executive. One-time-only funding would exclude this funding from the base for the 2009 biennium when it would not be needed.

DP 208 - Aircraft Engine and Propeller - Biennial - An increase of \$32,000 state special revenue for the biennium is requested to overhaul the engine and propeller of a division-owned aircraft. The Aeronautics Division owns and operates a 1975 A-36 Beechcraft Bonanza aircraft. The aircraft engine and propeller are recommended by the manufacturer to be overhauled when the hours flown reaches 1,700. The aircraft engine and propeller is expected to exceed the recommended 1,700 hours flight time in the next biennium and is due to be overhauled. The engine and propeller would be installed by the division airframe and power plant mechanic, certified, inspected, and test flown before being returned to service. The executive requests a biennial appropriation for this adjustment so the expenditure could be funded in the year the aircraft reaches the manufacturer standard.

**LFD  
ISSUE***Major Overhaul – One-Time Authority*

The need to perform a major engine and propeller overhaul is not routine and does not recur each fiscal year. As such, the legislature may wish to designate this funding as one-time-only in addition to the biennial designation requested by the executive. One-time-only funding would exclude this funding from the base for the 2009 biennium when it would not be needed.

DP 209 - Aircraft purchase - An increase of \$388,000 state special revenue for the biennium is requested to purchase a aircraft to replace an existing aircraft used for air search and rescue activities. The executive requests a biennial appropriation for this adjustment.

**LFD  
COMMENT***Aircraft Information and Use*

The Division owns a 1966 Cessna T-41, ex-military trainer aircraft. This aircraft has 9,200 hours on the airframe and power plant. The aircraft is used primarily for air search and rescue activities. In accordance with an agreement with the Governor and the United States Air Force the division is the first responder in case of a missing or downed aircraft. The Aeronautics Division intends to sell the Cessna T-41 and purchase a Cessna Turbo 182, model year 2000 or greater. The Cessna Turbo 182 would also have a longer fuel range capacity and a faster cruise speed than the Cessna T-41. The division expects to receive approximately \$60,000 from the sale of the Cessna T-41 and would use the proceeds of the sale and a loan of approximately \$290,000, repayable over 20 years, to purchase the replacement aircraft.

**LFD  
ISSUE***Aircraft Purchase – One-Time Authority*

A portion of the funding is for the one-time purchase of an aircraft. If the purchase is made in fiscal 2006, the base funding that corresponds to the aircraft purchase would not be needed in the 2009 biennium except for the amount needed for debt service on the loan. To prevent the one-time portion of the funding from inflating the base for the 2009 biennium, the legislature has the following options:

- Designate \$324,000 of the funding for fiscal 2006 as a one-time-only appropriation.
- Designate \$350,000 of the funding for fiscal 2006 as a one-time-only appropriation

One-Time Authority of \$324,000

Approving one-time authority of \$324,000 would allow \$26,000 of the purchase price to continue into the base for the 2009 biennium to fund debt service on the loan. The one complication with this approach is that the operational plan for the 2009 biennium would not be established in accordance with how the funding would be expended. The operational plan for equipment would be overstated by \$26,000 while the operational plan for debt service would be understated by the same amount. Aligning the operating plan with actual expenditures would necessitate administrative actions on the part of the executive.

One-Time Authority of \$350,000

Approving one-time authority of \$350,000 would eliminate funding for the entire purchase price from continuing into the base for the 2009 biennium. The executive would then need to request funding for debt service in the budget request for the 2009 biennium.

**Proprietary Rates****Proprietary Program Description**

The West Yellowstone Airport provides a fly-in gateway to the town of West Yellowstone, Yellowstone Park, and surrounding US Forest Service area recreational opportunities. The airport is seasonal in its operation matching the peak tourist demand of the area from June 1 to September 30. The airport serves as an inter-agency fire control center with both smoke jumpers and fire retardant bombers located at the airport. The airport accomplishes these missions with extensive facilities to accommodate aircraft of various sizes. The airport has a terminal building with tenants that provide the following functions: cafe, gift shop, two car rental agencies, fixed based operation (FBO) serving general aviation, and Skywest Airlines. The operation of the West Yellowstone Airport is funded from an enterprise type proprietary fund.

**Proprietary Revenues and Expenses***Revenues*

Revenues for the operation of the West Yellowstone Airport are derived from landing fees, building space rental fees, fuel flowage fees, sales receipts, and non-aero rentals.

*Expenses*

Expenses from the fund are for personal services for 1.29 FTE and operating expenses such as janitorial supplies, insurance, facility maintenance, and matching funds for federally funded capital improvement projects at the airport.

*Fund Equity and Reserved Fund Balance*

The West Yellowstone Airport proprietary fund balance continues to increase. Management objectives are to continue to increase the fund balance. There is no fluctuation of cash into the program and there is not any significant reoccurring cash obligations that must be covered by cash on hand or loans.

The figure for fund 06007 shows the financial information for the fund from fiscal 2002 through fiscal 2007.

2007 Biennium Report on Internal Service and Enterprise Funds						
Fund	Fund Name	Agency Name	Program Name			
6007	West Yellowstone Airport	Transportation	Aeronautics Program			
		Actual	Actual	Actual	Budgeted	Budgeted
		FY02	FY03	FY04	FY05	FY06
						Budgeted
						FY07
<b>Operating Revenues:</b>						
Fee revenue						
Miscellaneous Service Fee	-	-	-	-	8,500	8,500
Net Fee Revenue	54,109	51,143	36,548	12,075	8,500	8,500
Investment Earnings	-	-	-	-	-	-
Securities Lending Income	-	-	-	-	-	-
Premiums	-	-	-	-	-	-
Other Operating Revenues	71,430	60,614	80,353	114,600	108,000	108,000
Total Operating Revenue	125,539	111,757	116,901	126,675	116,500	116,500
<b>Operating Expenses:</b>						
Personal Services	33,976	35,282	42,682	47,265	48,143	48,452
Other Operating Expenses	31,026	44,526	77,858	33,533	87,314	72,314
Total Operating Expenses	65,002	79,808	120,540	80,798	135,457	120,766
Operating Income (Loss)	60,537	31,949	(3,639)	45,877	(18,957)	(4,266)
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	-	-	-	-	-	-
Federal Indirect Cost Recoveries	-	-	-	-	-	-
Other Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Net Nonoperating Revenues (Expenses)	-	-	-	-	-	-
Income (Loss) Before Operating Transfers	60,537	31,949	(3,639)	45,877	(18,957)	(4,266)
Contributed Capital	-	-	-	-	-	-
Operating Transfers In (Note 13)	25,452	7,303	18,221	25,500	20,000	20,000
Operating Transfers Out (Note 13)	-	-	-	-	-	-
Change in net assets	85,989	39,252	14,582	71,377	1,043	15,734
Total Net Assets- July 1 - As Restated	(539,557)	891,543	814,113	827,921	899,298	900,341
Prior Period Adjustments	-	(116,682)	(774)	-	-	-
Cumulative effect of account change	1,345,111	-	-	-	-	-
Total Net Assets - July 1 - As Restated	805,554	774,861	813,339	827,921	899,298	900,341
Net Assets- June 30	891,543	814,113	827,921	899,298	900,341	916,075
60 days of expenses						
(Total Operating Expenses divided by 6)	10,834	13,301	20,090	13,466	22,576	20,128

**LFD  
COMMENT***Growing Fund Equity*

Historically, the operating revenues for the fund exceed the operating expenses except for both fiscal years of the 2007 biennium, as the fund is used to match the second phase of the runway rehabilitation project. Once the rehabilitation project is completed, the fund should return to a condition where operating revenues exceed operating expenses and the balance would again grow. At the end of fiscal 2004 the cash balance in the account was more than \$521,000, which is four times the operating expenses for that year and nearly 63.0 percent of net assets. At the end of the 2007 biennium, the operating income would increase the cash balance to nearly \$544,000 or 4.5 times operating expenses. The agency has provided a potential list of \$550,000 in future project costs that would be financed by the growing cash balance. Projects anticipated in future years but not shown on the fund sheet because they occur after FY 2007 include:

- Additional runway pavement reconstruction not addressed by the 2005 biennium project
- An upgrade of the terminal, including window, lighting, and flooring replacement
- A tractor/mower upgrade
- Connection to the West Yellowstone city septic system

**Proprietary Rate Explanation**

Fees for provided services are market based. The program for the operation of the West Yellowstone Airport charges the fees shown on Figure 40A. For the 2007 biennium, the fees for building leases and the sales receipts for the café and gift shop would increase and the rental of the sewer lagoon to the City of West Yellowstone would be tied to the consumer price index for all urban consumers (CPI-U). Because this is an enterprise type proprietary fund, the legislature does not approve rates. Fees are presented for information only.

Figure 40A West Yellowstone Airport Base and 2007 Biennium Rates				
Fee Description		Fiscal 2004 Fees	Fiscal 2006 Fees	Fiscal 2007 Fees
Landing Fees - Scheduled Air Carriers		\$0.50/1000 lbs	\$0.50/1000 lbs	\$0.50/1000 lbs
Landing Fees - Other Uses	11,000-31,250 lbs	\$25.0	\$25.0	\$25.0
Landing Fees - Other Uses	>31,250 lbs	\$0.80/1000 lbs	\$0.80/1000 lbs	\$0.80/1000 lbs
Fuel Flowage Fees (0015)		\$0.06/gallon	\$0.06/gallon	\$0.06/gallon
Building Leases - Car Rental	per month	\$1.55/sq.ft.	\$2.00/sq.ft.	\$2.00/sq.ft.
Building Leases - FBO's & Tours	per month	\$1.2975/sq.ft.	\$2.00/sq.ft.	\$2.00/sq.ft.
Building Leases - Airlines	per month	\$1.8908/sq.ft.	\$2.00/sq.ft.	\$2.00/sq.ft.
Building Leases - U/G Storage	per month	\$0.025/sq. ft.	-	-
Building Leases - Hanger Ground	per year	\$0.05/sq.ft.	\$0.10/sq.ft.	\$0.10/sq.ft.
Tax Transfer		\$18,221.0	\$15,000 est.	\$15,000 est.
Sales Receipts - Car Rental		10% of gross	10% of gross	10% of gross
Sales Receipts - Café/Gift Shop		5% of gross	10% of gross	10% of gross
Non-Aero Rentals - Nevada Testing	per year	Prior yr + CPI-U	Prior yr + CPI-U	Prior yr + CPI-U
Non-Aero Rentals - City of WYS	per year	\$9,600/year	Prior yr + CPI-U	Prior yr + CPI-U
Non-Aero Rentals - Energy West	per year/acre	Prior yr + CPI-U	Prior yr + CPI-U	Prior yr + CPI-U

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	59.10	0.00	0.00	59.10	0.00	0.00	59.10	59.10
Personal Services	2,635,132	138,566	0	2,773,698	139,721	0	2,774,853	5,548,551
Operating Expenses	1,567,249	42,965	375,000	1,985,214	42,947	0	1,610,196	3,595,410
Equipment	22,922	0	0	22,922	0	0	22,922	45,844
Grants	4,872,228	1,271,007	0	6,143,235	1,271,007	0	6,143,235	12,286,470
<b>Total Costs</b>	<b>\$9,097,531</b>	<b>\$1,452,538</b>	<b>\$375,000</b>	<b>\$10,925,069</b>	<b>\$1,453,675</b>	<b>\$0</b>	<b>\$10,551,206</b>	<b>\$21,476,275</b>
State/Other Special	1,264,590	1,000,335	75,000	2,339,925	989,838	0	2,254,428	4,594,353
Federal Special	7,832,941	452,203	300,000	8,585,144	463,837	0	8,296,778	16,881,922
<b>Total Funds</b>	<b>\$9,097,531</b>	<b>\$1,452,538</b>	<b>\$375,000</b>	<b>\$10,925,069</b>	<b>\$1,453,675</b>	<b>\$0</b>	<b>\$10,551,206</b>	<b>\$21,476,275</b>

**Program Description**

The Transportation Planning Division provides: 1) an inventory of transportation infrastructure to allocate funds, maintain Department of Transportation eligibility for grants and federal funds, and aid in the process of project prioritization and selection; 2) a statewide planning program and assistance to local area transportation planning; and 3) response to legislative or regulatory actions necessitating representation before courts, congressional hearings, the US Department of Transportation, the Surface Transportation Board, and others. This planning results in a program that includes buses for transit systems, street and highway improvements, railroad track rehabilitation, and transportation enhancements for non-motorized and beautification improvements.

**Program Highlights**

<b>Department of Transportation</b> <b>Transportation Planning Program</b> <b>Major Budget Highlights</b>	
<ul style="list-style-type: none"> <li>Total fund budget would increase through adjustments totaling \$3.2 million for the biennium over the base (an average annual increase of 18 percent) due primarily to: <ul style="list-style-type: none"> <li>Statewide present law adjustments</li> <li>Establish funding for base year levels of overtime and differential pay</li> <li>Studies of transportation corridors</li> <li>Increases for grants to senior citizen and persons with disabilities</li> <li>Grants to procure or construct transit facilities, purchase transit vehicles, and operate transit vehicles in rural areas</li> </ul> </li> </ul>	

## Funding

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the executive.

Program Funding Table						
Transportation Planning						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
02282 Fta Local Match	\$ 252,189	2.8%	\$ 252,189	2.3%	\$ 252,189	2.4%
02422 Highways Special Revenue	1,012,401	11.1%	2,087,736	19.1%	2,002,239	19.0%
03147 Fta Grants	2,792,162	30.7%	3,741,753	34.2%	3,741,763	35.5%
03407 Highway Trust - Sp Rev	5,040,779	55.4%	4,843,391	44.3%	4,555,015	43.2%
Grand Total	<u>\$ 9,097,531</u>	<u>100.0%</u>	<u>\$ 10,925,069</u>	<u>100.0%</u>	<u>\$ 10,551,206</u>	<u>100.0%</u>

The Transportation Planning Division is funded with a combination of state and federal special revenue funds. Transit grants are generally fully funded (100 percent) with Federal Transit Administration funds. However, if a match is required it is provided by the local entity receiving services or on a rare occasion with highways state special revenue funds. The remaining division activities are funded with federal planning and research funds and state special revenue funds at a ratio of 69 percent federal and 31 percent state special revenue for the 2007 biennium. State special revenue funds include just over \$500,000 in local match pass-through authority for the 2007 biennium.

## Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				251,114					252,324	
Vacancy Savings				(115,446)					(115,501)	
Inflation/Deflation				(489)					(457)	
Fixed Costs				249					249	
<b>Total Statewide Present Law Adjustments</b>				<b>\$135,428</b>					<b>\$136,615</b>	
DP 5001 - SB 448 Transade	0.00	0	145,989	0	145,989	0.00	0	145,989	0	145,989
DP 5005 - Overtime and Differential	0.00	0	956	1,942	2,898	0.00	0	956	1,942	2,898
DP 5006 - Equipment Rental	0.00	0	6,364	25,457	31,821	0.00	0	6,354	25,417	31,771
DP 5008 - Accrual Accounting Error	0.00	0	2,277	9,107	11,384	0.00	0	2,277	9,107	11,384
DP 5009 - FTA Grants	0.00	0	0	969,101	969,101	0.00	0	0	969,101	969,101
DP 5010 - FHWA Metropolitan Planning Grant	0.00	0	31,183	124,734	155,917	0.00	0	31,183	124,734	155,917
<b>Total Other Present Law Adjustments</b>	<b>0.00</b>	<b>\$0</b>	<b>\$186,769</b>	<b>\$1,130,341</b>	<b>\$1,317,110</b>	<b>0.00</b>	<b>\$0</b>	<b>\$186,759</b>	<b>\$1,130,301</b>	<b>\$1,317,060</b>
Grand Total All Present Law Adjustments				\$1,452,538					\$1,453,675	

DP 5001 - SB 448 Transade - An increase of \$291,978 state special revenue for the biennium is requested to increase funding for transportation assistance grants for the disabled and elderly to projected revenue levels. The base year was a transition year and expenditures were lower than a typical year based on average revenue trends from a fee collected for this purpose.

**LFD  
COMMENT***Transportation Assistance for Disabled and Elderly*

The 2001 Legislature passed SB 448 and added a \$0.25 fee collected on all vehicle registrations with the exception of trailers and semi-trailers pursuant to 61-3-321, MCA to fund transportation services for senior citizen and persons with disabilities. SB 448 authorized the department to use the funds to award grants to counties, incorporated cities and towns, transportation districts, or nonprofit organizations for transportation services for persons 60 years of age or older and for persons with disabilities.

DP 5005 - Overtime and Differential - Increases of \$1,912 state special revenue and \$3,884 federal special revenue for the biennium are requested to reestablish base year overtime and differential pay. Included in the increase is \$758 for benefits, calculated at 15 percent of overtime and differential pay, to fund federal payroll taxes, workers compensation and state unemployment insurance, and employer contribution to the public employee retirement system.

DP 5006 - Equipment Rental - Increases of \$12,718 state special revenue and \$50,874 federal special revenue for the biennium are requested to fund the program share of proposed increases in the Equipment Program - an internal service program exclusively serving programs of the Department of Transportation.

DP 5008 - Accrual Accounting Error - Increases of \$4,554 state special revenue and \$18,214 federal special revenue for the biennium are requested to provide funding removed from the base due to an accounting error. For FY 2004, the department inadvertently accounted for \$11,384 in expenditures against a one-time-only appropriation instead of a base appropriation.

DP 5009 - FTA Grants - An increase of \$1,938,202 federal special revenue for the biennium is requested for transit capital assistance grants to local governments. The projects were submitted through and supported by the Montana congressional delegation. These federal funds would be used to procure or construct transit facilities, purchase transit vehicles, and operate transit vehicles in rural areas.

DP 5010 - FHWA Metropolitan Planning Grant - Increases of \$62,366 state special revenue and \$249,468 federal special revenue for the biennium are requested to provide metropolitan planning grants to Billings, Great Falls, and Missoula to conduct transportation planning in urbanized areas. Federal funding requires updating the long-range transportation plans for these urban areas each three years. Because of the three-year cycle, a greater number of plan updates are due in FY 2006 and FY 2007 than were developed in FY 2004.

**New Proposals**

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	
DP 5007 - Corridor Studies										
50	0.00	0	75,000	300,000	375,000	0.00	0	0	0	0
Total	0.00	\$0	\$75,000	\$300,000	\$375,000	0.00	\$0	\$0	\$0	\$0

DP 5007 - Corridor Studies - Increases of \$75,000 state special revenue and \$300,000 federal special revenue for the biennium are requested to fund corridor studies intended to evaluate the existing transportation system within and along specific corridors, and identify how the system could be improved to meet existing and long-term needs.

**LFD  
COMMENT***Corridor Studies*

According to the department, the studies would be conducted through a collaborative process with local jurisdictions and the public. The studies are intended to provide a means for facilitating resolution of major issues before specific project programming and development begins. The studies are intended to save money by identifying long-range right-of-way needs and anticipated problems resulting from growth before solutions become too expensive. The end product is a comprehensive package of strategies and improvements that are designated to achieve the goals for the corridor. Highway 93 between Missoula and Lolo was identified as the first study to be undertaken through this process and is scheduled to begin in FY 2005.